No. 83-1018

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In The

Supreme Court of the United States

October Term, 1983

VINCENT ESPOSITO, WEST PIERRE, MIKE DeLAPE, LEE SPENCER, ERNEST HODGES, DANIEL A. SMITHY, MIKE MINITELLO, and AL SPENCER, ON BEHALF OF ALL PRESENT AND FORMER MISTER SOFTEE FRANCHISEES IN THE QUEENS-NASSAU AREA,

Petitioners,

vs.

MISTER SOFTEE, INC. and MISTER SOFTEE EASTERN NEW YORK DIV., INC., RO-FI CORP. and C & C DISTRIBUTORS, INC.,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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QUESTIONS PRESENTED

1. Are nominal damages available under Section 4 of the Clayton Act where the proof is insufficient in respect to the quantum of damages sustained?

2. Are petitioners entitled to an award of nominal damages under Section 4 of the Clayton Act where respondents' tie-in scheme, violative of Section i of the Sherman Act, had the effect of (1) precluding petitioners from making purchases in the open market; and (2) significantly restrained competition in the market for the tied products?

3. Are petitioners entitled to a recoupment of royalties paid by them for use of respondents' trademark where such mark was used to effect the illegal tie-in?

4. Is an antitrust plaintiff assigned the burden of proving the nature and value of incidental "support services" provided by the violator in calculating damages under Section 4 of the Clayton Act?

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

OPINIONS BELOW

The District Court's opinion concerning the issuance of its preliminary injunction is reported at 1976-1 Trade Cas. ¶60,786 (E.D.N.Y. 1976); the class certification issues at 1976-1 Trade Cas. ¶60,887 and ¶61,202 (E.D.N.Y. 1976); the substantive liability issues at 1980-1 Trade Cas. ¶63,089 (E.D.N.Y. 1979); and the damage aspect at 1983-1 Trade Cas. ¶65,336 (E.D.N.Y. 1983). The District Court's opinion issued following the liability trial is reproduced at pages 1a-62a of the Appendix, and the opinion following the damage trial is reproduced at pages 63a-108a.

The opinion of the Court of Appeals for the Second Circuit is not officially reported and appears at pages 109a-113a of the Appendix.

JURISDICTION

This petition for certiorari has been filed within 90 days of the entry of judgment of the Court of Appeals on September 16, 1983. This Court's jurisdiction to review the judgment below is invoked under 28 U.S.C. §1254(1).

STATUTES INVOLVED

Section 4 of the Clayton Act, 15 U.S.C. §15 (1981) (hereinafter referred to as "Section 4") provides that:

> Any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of the suit, including a reasonable attorney's fee.

STATEMENT OF THE CASE

A. Nature of the Case

Petitioners (hereinafter referred to alternatively as "franchisees") commenced this action in the District Court for the Eastern District of New York against respondents Mister Softee, Inc. (hereinafter "Mister Softee" or "franchisor"), Mister Softee Eastern N.Y. Div., Inc. ("Eastern"), Ro-Fi Corp. ("Ro-

Fi"), Fi-Zo Corp. ("Fi-Zo") and C & C Distributors, Inc. ("C & C"). The franchisees' complaint charged that their national franchisor, Mister Softee, their regional franchisor Eastern, and the other respondents imposed tying arrangements upon them, illegal under the antitrust statutes, whereby respondents conditioned the license of the Mister Softee trademark upon the franchisees' purchasing from respondents all goods necessary for the operation of their businesses (2a-3a). The complaint sought treble damages and injunctive relief under 15 U.S.C. §§15 and 26 respectively. The jurisdiction of the District Court was based upon the provisions of 28 U.S.C. §1337(a) (1981), 15 U.S.C. §15 (1981) and 15 U.S.C. §26 (1976).

B. Course of Proceedings Below

The District Court ordered that the action be maintained as a class action under Fed. R. Civ. P. 23(b)(3) (52a). Thereafter, pursuant to Fed. R. Civ. P. 42(b), it ordered that the liability aspect of the action be tried first. The issue of liability was thereafter tried to the court without a jury (4a). Following such trial, the court found that respondents Mister Softee, Eastern, Ro-Fi and C & C had violated Section 1 of the Sherman Act, 15 U.S.C. §1 (1976) (1a-62a). Additionally, the court found that the violation caused injury to members of the plaintiff class (62a).

The issue of damages was tried to the District Court without a jury in November 1982 (65a). The court found that petitioners had failed to prove the extent of damage (63a-108a). The court also vacated its prior finding that the antitrust violation caused injury (98a-100a). It denied petitioners' claim for recoupment of royalties paid to respondents under the franchise agreements (95a-98a). The court directed entry of judgment dismissing the complaint (101a).

Petitioners appealed to the Court of Appeals for the Second Circuit from the judgment dismissing the complaint. That court affirmed the District Court's dismissal of the complaint (109a-114a).

C. Statement of Facts

i. The Mister Softee Franchise System

Respondent Mister Softee, Inc. is the owner of the nationally known tradename and trademark "Mister Softee", and is in the business of granting franchises to others to operate businesses under such name (2a). Since 1956, Mr. Softee has granted such franchise licenses to others for sale of soft ice cream, to the public, through mobile units (4a). In certain parts of the country, Mister Softee has granted authorization to various regional distributors, such as respondent Eastern, to license use of the Mister Softee name within a designated area (2a, 5a-6a). Such regional distributors, in turn, grant Mister Softee franchises to individual franchisees, who then operate mobile soft ice cream units under the Mister Softee trademark (6a).

Eastern was granted an exclusive sales franchise distributorship from Mister Softee in 1957 for Queens, Nassau, Suffolk, Westchester and certain upstate New York counties (5a-6a). Eastern then entered into contracts with individual franchisees which gave the latter the exclusive right to operate mobile soft ice cream businesses under the name "Mister Softee" within a defined geographical area (6a). The terms of the Eastern/individual franchisee contract were dictated by Mister Softee (6a). Following execution of the contract, it is submitted to Mister Softee for its written approval (6a). The franchise agreement required the franchisee, *inter alia*, to:

> purchase all mix, novelties, [*i.e.*, hard ice cream], stick items, hard ice cream, printed paper goods,

> napkins, cones, extracts, toppings, shake flavors, plastic articles, sanitary supplies, and all other 'Mister Softee' products or supplies from Representative [*i.e.*, Eastern] or Mister Softee, Inc. or from the suppliers from time to time designated by Mister Softee, Inc. (7a).

Failure of the franchisee to restrict the sources of purchases according to the above provision was grounds for termination of his franchise. Additionally, the agreement provided that each franchisee pay "a service charge" or royalty on each gallon of soft ice cream mix purchased (7a-8a).

Respondent Ro-Fi was formed in 1969 (8a). As the "alter ego" of Eastern (48a), Ro-Fi became the sole designated supplier of Mister Softee ice cream mix, toppings, cups, novelties and other supplies for franchisees operating Mister Softee franchises in the Queens-Nassau, New York area (8a-9a). Some of these supplies were purchased by Ro-Fi from Mister Softee, and after 1970, from respondent C & C, a related company (9a). Ro-Fi's other sources of supplies were subject to approval by Mister Softee (9a). None of the supplies were manufactured by any of the respondents, rather, they were purchased from manufacturers, wholesalers and distributors (38a-39a). The cost of supplies upon resale was set by Ro-Fi (9a). Ro-Fi also maintained a depot at its supply location, which it leased from the owner of the realty, Fi-Zo (9a).* Ro-Fi leased individual parking spaces for the franchisees' ice cream trucks (mobile units), for which it was paid an annual rental (9a).

Early in 1975, at a meeting of Mister Softee dealers, Eastern circulated a new price list for supplies (11a). Petitioner Esposito responded that he had checked the open market and found that

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* During the trial, petitioners stipulated to dismissal of the action against Fi-Zo, and that defendant's involvement is not at issue herein (51a).

the price for supplies sold by Ro-Fi was significantly higher than the open market prices (11a). Esposito started a "cooperative buying program" (hereinafter alternatively referred to as "cooperative" or "group purchases") whereby he, along with approximately 30 other Mister Softee franchisees made purchases, as a unit, in the open market (11a-12a).

Eastern's response to this group purchasing effort was notification to Esposito that his franchise would be cancelled (12a-13a). The specific reason cited was that Esposito breached the "all requirements" provision of his franchise contract (13a). Additionally, the notification advised that he had "induced other dealers to violate their agreements by selling to them such merchandise" (13a). Esposito, however, was told that his franchise would be reinstated if he abandoned his plan to purchase from sources other than respondents, and insure that others do likewise (13a). As a result of the foregoing, the instant litigation was commenced (13a).

ii. The District Court's Findings On Liability

Following trial of the issue of liability, the District Court found that petitioners established a tying arrangement, illegal under Section 1 of the Sherman Act (30a). It rejected respondents' attempts to excuse such violation on the grounds that it was a necessary method of controlling the quality of the products sold by franchisees (36a-42a). In so doing, it noted that none of the goods were manufactured by respondents, but rather, purchased by them for resale to petitioners, from manufacturers, wholesalers or distributors "who are equally accessible to the dealers" (38a-39a). Additionally, it found that the tie-in practice significantly restrained competition in the market for the tied products (26a). The District Court further found that there was "substantial proof" that the tied merchandise was overpriced (62a) and thus, the violation "proximately caused injury to members

of the plaintiff class" (50a). The damage period was later defined as between April 15, 1971 and June 29, 1979 (65a).

iii. The District Court's Finding On Damages

Following the damage trial, the District Court found that if purchases had been made by the petitioners, on a group basis during the damage years, they would have been entitled to the same purchase price for the goods as that paid by Ro-Fi (76a). Relying upon decisional authority, the District Court found that the measure of damages sustained as a result of a tying violation was the difference between the price actually paid for the tied product, and the price at which the product could have been obtained in the open market (73a-74a). It rejected, however, Ro-Fi's cost of supplies as representative of the price at which petitioners could have obtained such goods in the open market finding that the prospect of cooperative purchases at group prices, without further costs, was unrealistic (75a). Moreover, the District Court refused to allow petitioners to recoup the royalties paid on the tied mix items (95a-98a).

Finally, the Court vacated its prior finding of fact of damage, *i.e.*, that the violation caused injury (100a), and directed entry of judgment dismissing the complaint.

iv. The Decision Of The Court Of Appeals

The Court of Appeals found that petitioners failed to prove the quantum of damages sustained as a result of the tying violation inasmuch as the damage theory failed to take into account the value of services incidental to the sale of goods which were provided by respondent Ro-Fi (111a). The court further refused to award nominal damages, relying upon this Court's decision in *J. Truett Payne Co. v. Chrysler Motors Corp.*, 451 U.S. 557, 561-62, 101 S. Ct. 1923, 1926-27 (1981), for its conclusion that

such damages do not automatically flow from proof of a Section 1 violation (112a). Finally, the Court of Appeals refused to award recoupment of royalties paid by petitioners to respondents under the franchise agreements, finding that this item of damage did not fall within the purview of Section 4 of the Clayton Act (113a).

REASONS FOR GRANTING THE WRIT

I.

THE QUESTION OF AN AWARD OF NOMINAL DAMAGES UNDER SECTION 4 OF THE CLAYTON ACT IS BOTH A TOPICAL ISSUE OF PERVASIVE AND SUBSTANTIAL PROPORTIONS AND ONE WHICH HAS GENERATED A CONFLICT IN THE CIRCUITS.

This Court has never addressed the issue of whether an award of nominal damages is proper, under Section 4 of the Clayton Act, 15 U.S.C. §15 (1981), where the proof is insufficient as to measurement of damage. The Courts of Appeals have been divided on the issue; the Second Circuit in the matter at hand [relying upon its previous decision in *Herman Schwabe, Inc. v. United Shoe Machinery Corp.*, 297 F.2d 906, 909 n.4 (2d Cir. 1962)] finding that such damages may not be awarded (112a), and the Eighth and Ninth Circuits holding to the contrary. *Rosebrough Monument Co. v. Memorial Park Cemetery Ass'n*, 666 F.2d 1130, 1147 (8th Cir. 1981), *cert. denied*, 457 U.S. 111 (1982); *Knutson v. Daily Review, Inc.*, 664 F.2d 1120 (9th Cir. 1981), *aff'g on opinion below*, 468 F. Supp. 226, 235 n.10, 240 (N.D. Cal. 1979). *See also Fleer Corp. v. Topps Chewing Gum, Inc.*, 501 F. Supp. 485, 514 (E.D. Pa. 1980), *rev'd on other grounds*, 658 F.2d 139 (3d Cir. 1981), *cert. denied*, 455 U.S. 1019 (1982) (awarding nominal damage relief).

A. Importance of the Question

The award of nominal damages, without proof of actual injury, has been sanctioned by this Court in connection with an action under the Civil Rights Act, 42 U.S.C. §1983 (1976). *Carey v. Piphus*, 435 U.S. 247, 266, 98 S. Ct. 1042, 1053-54 (1978). In so doing, the Court recognized the substantive remedial role of such award in both vindicating important rights and assuring scrupulous observance of such rights in the future. *Id.*, 98 S. Ct. at 1054.

Equally important are those rights guaranteed by the Sherman Act, which this Court has defined as "a comprehensive charter of economic liberty." *Northern Pac. Ry. v. United States*, 356 U.S. 1, 4, 78 S. Ct. 514, 517 (1958). The coordinate existence of the nominal damage remedy to vindicate deprivations of "economic liberty" warrants Supreme Court review.

The nominal damage question, moreover, has a profound impact on the incentive for private antitrust enforcement. All damages were denied to petitioners herein because their damage calculation was found to have been "highly speculative" (110a). This Court, however, has recognized the "practical limits" of an antitrust plaintiff's burden of proof, *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 123, 89 S. Ct. 1562, 1576 (1969), and has even acknowledged that "[t]he determination of damages in an antitrust suit, however, almost invariably requires a certain amount of speculation, no matter how informed." *Perma Life Mufflers, Inc. v. International Parts Corp.*, 392 U.S. 134, 152, 88 S. Ct. 1981, 1991 (1968) (Marshall, J. concurring). The line of demarcation between acceptable and unacceptable speculation in proof of antitrust damages is thus frequently blurred. The incentive for prospective antitrust plaintiffs and counsel alike to assume the "private attorney general" role is tempered by the prospect of succeeding on the merits in exposing

the substantive violation only to be met with a finding that the damage proof was impermissibly "speculative."

An award of nominal damages to an antitrust plaintiff, where the proof has crossed the line into impermissible speculation would still allow recovery for not only all costs incurred in the litigation, but also for attorney's fees. *See Rosebrough Monument Co. v. Memorial Park Cemetery Ass'n, supra,* 666 F.2d at 1148. As this Court has recognized, recovery of these items is not an insubstantial consideration in furthering antitrust enforcement policy; to the contrary, it "should provide no scarcity of members of the Bar to aid prospective plaintiffs in bringing these suits." *Hawaii v. Standard Oil Company of California,* 405 U.S. 251, 266, 92 S. Ct. 885, 893 (1972).

On the other hand, denial of nominal damages, with the consequent denial of costs and fees incurred in connection with the damage aspect, is a substantial deterrent to the private damage action. Such remedy's availability to the antitrust plaintiff in his capacity as a "private attorney general" is a substantial issue deserving of this Court's consideration.

B. Conflict in the Circuits

The decision rendered by the Second Circuit below is in conflict with decisions of two other federal courts of appeals which have spoken on the subject of nominal damages. The Eighth Circuit in *Rosebrough Monument Co. v. Memorial Park Cemetery Ass'n, supra,* reviewed a tie-in scheme practiced by defendants, which had the effect of excluding plantiff from making sales in a particular market. 666 F.2d at 1146-47. The court found antitrust injury as a result of the market exclusion effect. *Id.* Finding that plaintiff's evidence regarding the damage aspect was insufficient *only* as to measurement of damages, the court awarded nominal damages under Section 4. 666 F.2d at 1147.

A similar award of nominal damages under Section 4 was affirmed by the Ninth Circuit in *Knutson v. Daily Review, Inc., supra,* 664 F.2d at 1121, where the District Court had found that the evidence relating to measurement of damages was speculative. *See Knutson v. Daily Review, Inc.*, 468 F. Supp. 226, 240 (N.D. Cal. 1979).

Petitioners herein sustained injury under Section 4 in the same manner that the *Rosebrough* plaintiff was injured, *i.e.*, both were unlawfully precluded from conducting a portion of their business in the free market. *See* p. 6, *supra.* Whereas the *Rosebrough* plaintiff "had in fact been injured by [defendant's] exclusive foundation preparation policy", 666 F.2d at 1146-47, petitioners herein were injured by the imposition of the tie-in, which, as Justice White has recognized:

> *injures the buyers of the second [tied] product,* who because of their preference for the seller's brand of the first [*i.e.*, tying product] are artifically forced to make a less than optimal choice in the second.

Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 512, 89 S. Ct. 1252, 1262 (White, J. dissenting). *See also Moore v. Jas. H. Matthews & Co.*, 550 F.2d 1207, 1212 (9th Cir. 1977) ("*[b]uyers are injured* because they forego choices among products and services") (emphasis added).

The Second Circuit, however, in departing from the standards established under the dictates of *Rosebrough, Moore* and *Fortner*, by which antitrust injury is shown, insisted that petitioners prove that "*damages* were incurred in the record" (112a) (emphasis supplied). Having rejected petitioners' theory regarding the quantum of damages sustained, it relied upon this Court's decision in *J. Truett Payne Co. v. Chrysler Motors Corp.*, 451 U.S. 557,

101 S. Ct. 1923 (1981) in refusing to enter a nominal damage award (112a).

In so doing, however, the court below confused "automatic damages", a theory rejected by *Payne*, 451 U.S. at 561-63, 101 S. Ct. 1926-28, with nominal damages. Indeed, neither the Eighth Circuit in *Rosebrough* nor the Ninth Circuit in *Knutson*, both of which awarded nominal damages and both of which were decided subsequent to *Payne*, found that such holding barred nominal damage relief.

The decision below is thus squarely at odds with previously decided cases of two federal courts of appeals. With the added fact that the conflict among the circuits involves an important question of federal law (*see* pp.12-14, *supra*), and one that is likely to recur in the future, it is submitted that such issue should be settled by this Court.

II.

THE DECISION BELOW IS IN CONFLICT WITH TWO FEDERAL COURTS OF APPEALS ON THE ISSUE OF DENIAL OF ROYALTIES AND PRESENTATION OF PETITIONERS' DAMAGE CALCULATION.

In denying petitioners' claim for damages, both under Section 4 for the overcharge and under equitable principles of law for the recoupment of royalty payments, the Second Circuit ignored persuasive rulings to the contrary in other circuits.

A. Denial of Royalties

The Second Circuit's refusal to award petitioners reimbursement of the royalties paid as a result of respondents'

illegal use of the trademark is in conflict with the Fifth Circuit's holding in *Carpa, Inc. v. Ward Foods, Inc.*, 536 F.2d 39 (5th Cir. 1976). Where a trademark was employed to effectuate an illegal tying arrangement, the *Carpa* court sustained a denial of royalties on its use. 536 F.2d at 50. In so doing, the court found support in Supreme Court decisional authority which has repeatedly denied relief to patent holders who used their patents to effect illegal tying arrangements. 536 F.2d at 50; *see United States v. Loew's Inc.*, 371 U.S. 38, 46, 83 S. Ct. 97, 102 (1962). *Carpa* further recognized that there was "no reason for differentiating between the treatment afforded patents and trademarks," 536 F.2d at 50 *citing Timken Roller Bearing Co. v. United States*, 341 U.S. 593, 598-99, 71 S. Ct. 971, 975 (1951). Indeed, in addition to the sound equitable principles employed by the courts in the case of patent antitrust misuse, the *Timken* Court noted, in the case of trademark antitrust misuse, the congressionally declared policy that "[a] trademark cannot be legally used as a device for Sherman Act violation." *Id.* at 599, 71 S. Ct. at 975. *See* 15 U.S.C. §1115(b)(7) (1976).

In declining to follow the Fifth Circuit's decision in *Carpa*, the Second Circuit restricted its analysis to the scope of damages recoverable under Section 4 (113a). It refused to recognize that long standing equitable principles governed the claim for recoupment of royalties and that a Section 4 analysis was irrelevant.

Moreover, *Lewis v. Seanor Coal Co.*, 382 F.2d 437, 441 (3d Cir. 1967), *cert. denied*, 390 U.S. 947 (1968), the sole authority upon which the Second Circuit relied in rejecting petitioners' claim for royalties (113a), did not involve the illegal use of a trademark to effect an antitrust violation. Indeed, neither *Carpa* nor *Milsen Co. v. Southland Corp.*, 454 F.2d 363 (7th Cir. 1971), both decided subsequent to *Lewis*, found it to be a controlling factor in the grant or denial of such relief.

As was the case in *Carpa*, 536 F.2d at 50, it is beyond dispute that respondents' trademark was the "linchpin" upon which the entire illegal tie-in depended (98a). The decision whether to follow long standing equitable principles consistent with this Court's rulings in the case of patents, or, on the other hand, to authorize the collection of royalties by the trademark owner, notwithstanding its illegal use, has caused division within the circuits and should be resolved by this Court.

B. Petitioners' Damage Calculation

The court below rejected petitioners' damage calculation based upon its failure to take into account the value of services performed by respondent Ro-Fi incidental to the sale of the tied goods (111a). Such services, reasoned the Court of Appeals "would have entailed some costs regardless of how they were obtained" (111a). Accordingly, the burden of showing the nature and extent of costs incidental to the purchase of goods on the open market, had the violation not occurred, was placed upon petitioners.

The imposition of such burden with the consequent rejection of the damage calculation is squarely in conflict with a ruling of the Court of Appeals for the Fourth Circuit. In *Burlington Industries, Inc. v. Milliken & Co.*, 690 F.2d 380 (4th Cir. 1982), *cert. denied*, 103 S. Ct. 1893 (1983), the defendants were adjudged guilty of Sherman Act violations in stabilizing and maintaining royalties paid by plaintiff licensees of patented machines. *Id.* at 384. The Court of Appeals sustained a ruling of the District Court that proof of the amount of royalties paid by plaintiffs was sufficient to establish a *prima facie* case of actual damages. *Id.* at 386. It also held that such damages were subject to diminution by the value of any consideration received by plaintiffs in return for the royalties, such as "support services" furnished to plaintiffs by defendants during the damage period. *Id.* These "support services" consisted of technical, mechanical and operational

assistance offered by defendants to plaintiffs to aid in the use of such patented machines. *Id.* at 390.

The burden of proving the existence and valuation of support services, however, was placed upon the defendants, the Fourth Circuit concluding:

> [t]hat antitrust damages can only be approximated and that antitrust coconspirators should be prevented from unfairly exploiting the complexity of factual issues occasioned by their unlawful conduct. Hence, we further hold that the royalties actually paid may serve as a prima facie estimate or "yardstick" of damages which defendants must overcome with persuasive evidence.

Id. at 386. Failure of defendants to introduce evidence of the valuation of support services does not detract from plaintiffs' proof of the *prima facie* case, rather, stated the court "[if] defendants offered no more precise method of valuing the benefits gleaned by [plaintiffs, then] this measure suffices under the rule of approximation which is applicable to antitrust damages." *Id.* at 388.

The *Burlington Industries* court is in accord with a similar ruling issued by the Fifth Circuit in *Yoder Bros., Inc. v. California-Florida Plant Corp.*, 537 F.2d 1347, 1376 n.29 (5th Cir. 1976), *cert. denied*, 429 U.S. 1094 (1977). Moreover, although this Court has not yet directly spoken on the issue, the Fourth and Fifth Circuits' rulings find support in both the majority and concurring opinions in *Perma Life Mufflers, Inc. v. International Parts Corp., supra.* The *Perma Life* Court held that the possible "beneficial byproducts" of a tie-in restriction can be taken into consideration in computing damages. 392 U.S. at 140, 88 S. Ct. at 1985. In his concurring opinion, Justice Marshall suggested that the burden

of proof of such matters rests with the defendant. *Id.* at 152, 88 S. Ct. at 1991 (Marshall, J. concurring).

The Second Circuit's assigning to petitioners the burden of proving the nature and extent of incidental services provided by respondents during the period of the violation and its consequent rejection of a damage estimate not incorporating such amount dilutes two important principles. First, it sanctions the violators' immunity from damages based upon the uncertainty which the violation has created. Indeed, requiring proof of valuation of incidental services provided by respondents unjustifiably assumes that in a free market: (1) a charge would be made for such service, and (2) such charge would be equal to the value of the services offered by respondents. The validity of such assumption is, at best, highly questionable. *See Fortner Enterprises, Inc. v. United States Steel Corp.*, 394 U.S. 495, 525, 89 S. Ct. 1252, 1270 (1969) (Fortas, J. dissenting).

Second, the decision below ignores the rule of approximation of antitrust damages and ascribes impractical limits to the antitrust plaintiffs' burden of proving quantum of damages where there has been a total exclusion from the free market. *See Zenith Radio Corp. v. Hazeltine Research, Inc., supra,* 395 U.S. at 123, 89 S. Ct. at 1576. The precision demanded by the Second Circuit presents a threat to private enforcement actions under Section 4.

The resultant conflict among the circuits is clear. It is one which affects important questions of antitrust law and should be resolved by this Court.

CONCLUSION

The petition for a writ of certiorari to the United States Court of Appeals for the Second Circuit should be granted.

Respectfully submitted,

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MEMORANDUM DECISION AND ORDER OF
MISHLER J. DATED DECEMBER 13, 1979

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

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VINCENT ESPOSITO, WEST PIERRE, MIKE DeLAPE, LEE SPENCER, ERNEST HODGES, DANIEL A. SMITHY, MIKE MINITELLO, and AL SPENCER, ON BEHALF OF ALL PRESENT AND FORMER MISTER SOFTEE FRANCHISEES IN THE QUEENS-NASSAU AREA,

Plaintiffs,

-against-

MISTER SOFTEE, INC., and MISTER SOFTEE EASTERN NEW YORK DIV., INC., RO-FI CORP., and C & C DISTRIBUTORS, INC.,

Defendants.

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MEMORANDUM OF DECISION AND ORDER

December 13, 1979

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MISHLER, CH. J.

Plaintiffs are franchisees of Mister Softee Eastern New York Division, Inc. (EASTERN). The defendants are Eastern,

Mister Softee, Inc. (Mister Softee), Ro-Fi Corp. (Ro-Fi) and C & C Distributors, Inc. (C & C). Mister Softee is the owner of the trademark and tradename "Mister Softee" and is in the business of franchising and authorizing regional distributors like Eastern to license the use of the name of "Mister Softee" in the designated areas. Ro-Fi is the designated supplier of merchandise and operates the Mister Softee depot in Queens County, New York, where Mister Softee trucks are serviced and parked. C & C has, since approximately 1970, been in the business of supplying dealers and distributors with Mister Softee merchandise. [1] Plaintiffs claim that their franchises for the vending of soft ice cream under the trademark and tradename of Mister Softee were conditioned upon a tying

arrangement in violation of Section 1 of the Sherman Act, 15 U.S.C. Section 1, Section 3 of the Clayton Act, 15 U.S.C. Section 14, and Section 15 of the Federal Trade Commission Act, 15 U.S.C. Section 45. [2]

Plaintiffs [3] ground their claim of an illegal tying arrangement on three alleged aspects of the defendants' corporate activity:

1. A requirement that all of the ice cream's ingredients and the paper goods and novelties used in selling to the consuming public be purchased from a designated source;

2. A policy that a fee had to be paid in order to obtain the necessary approval for the sale of a franchise; and

3. A requirement that the franchisees contribute $80 per annum per franchise to an advertising fund, which monies were not used for advertising.

The issues were tried to the court without a jury. Pursuant to Rule 52 of the Federal Rules of Civil Procedure the Court finds as follows:

Mister Softee was originally incorporated in the Commonwealth of Pennsylvania in 1956. [4] In 1966 it filed a certificate of incorporation in the State of New Jersey. William Conway and his brother James Francis Conway are the sole stockholders and officers of Mister Softee. They developed a mobile soft ice cream unit in which the ice cream was manufactured by a freezing mechanism installed in the vehicle. [5]

The Mister Softee truck is assembled in accordance with the design and specifications of the Conways. The body is placed on a Ford Motor Company chasis and then the freezing equipment, including the refrigerated box, freezer box, compressor, plumbing and lighting are installed at the Mister Softee plant. The vehicle is an efficient mobile soft ice cream unit and distinctive in appearance. Mister Softee granted franchises in New Jersey, Pennsylvania, Delaware and Maryland. In other regions of the country, Mister Softee authorized distributors to franchise the use of the trademark and tradename Mister Softee within designated geographical areas. In 1957, Mister Softee appointed Eastern as its exclusive sales franchise distributor for Queens, Nassau, Suffolk,

Westchester, and 14 upstate counties. [6] The pertinent parts of the "Sales Franchise Distributor Agreement" are recited in the footnote. [7]

All of Eastern's stock is held, in equal shares, by Frank Fielder and his son, Kenneth Fielder.

Eastern entered into contracts with franchisees (dealers) licensing the use of the trademark Mister Softee on forms of contract containing terms and conditions dictated by Mister Softee. Every contract between Eastern and its dealers was submitted to Mister Softee for its written approval. The dealer franchise agreement grants the dealer the exclusive right to the sale of Mister Softee products within a defined geographical area. The dealer-franchise agreement requires the dealer:

(1) To purchase a Mister Softee Truck [8] at a price determined by Mister Softee.

(2) To "purchase all mix, novelties, stick items, hard ice cream, printed paper goods, napkins, cones, extracts, toppings, shake flavors, plastic articles, sanitary supplies and all other 'Mister Softee' products or supplies from Representative [Distributor] or Mister Softee, Inc. or from the suppliers from time to time designated by Mister Softee, Inc." [9]

(3) To pay to all dairies designated by Mister Softee from whom soft-serve ice cream or frozen dessert mix a "service charge" on each gallon of mix purchased and/or each dozen of ice cream and frozen dessert novelties purchased. The fee has increased from fifteen cents per gallon of mix in the early 1960s to sixty cents per gallon of mix and ten cents per dozen novelties at the present time. Each dealer pays such charge at the rate prevalent at the time he entered into the contract. Purchasers of franchises are

required to sign new dealer franchise agreements and pay the rate in effect at the time of the execution of the agreement.

(4) To purchase and/or pay the difference in service charge on minimum gallons per year, varying in dealer franchise agreements from 1900 to 2500 gallons. 10

(5) To obtain the written consent of the distributor (representative) and Mister Softee as a condition of the sale of the franchise.[11] (Eastern or Frank Fielder charged a commission payable by the seller upon the sale of a route. For example, when Al Spencer sold a route in 1973, he paid Fielder $675 on a sales price of $13,500.)

Ro-Fi Corp. was incorporated about 1969. The stock of Ro-Fi is also held exclusively, in equal proportions, by Frank and Kenneth Fielder. Ro-Fi became the sole designated supplier of Mister Softee ice cream mix, toppings,

cups, novelties and supplies for dealers in Queens and Nassau dispensing the Mister Softee products. [12]
Some of these supplies were purchased from Mister Softee and after 1970, from C & C. Ro-Fi's other sources of supplies were subject to approval by Mister Softee. The cost of supplies to the dealers was set by Ro-Fi. Ro-Fi also maintained a depot at its supply location for the parking of Mister Softee trucks at a fixed annual charge of about $1,100. The service included electric current to maintain the refrigeration in the truck, as well as cleaning.

In 1969, the dealers formed an association known as the Five County Soft Ice Cream Dealers Association. Some members were advised by the association's

attorney that the all-requirements provision was of doubtful validity. Plaintiff Lee Spencer and a dealer named Fuloco Pelusi purchased paper goods from a non-designated source. Frank Fielder threatened to bar Pelusi from the depot and thus deprive him of a vital service.[13] The association ceased to function until 1972 when increased prices of mix, toppings and supplies and dissatisfaction with the quality of the mix (purchased by Ro-Fi from Horstmann Dairy) triggered a strike by the dealers.[14] Esposito thereupon assumed the duties of the president of the association and became the spokesman for the dealers.

Esposito and members of the association met with Eastern and Mister Softee officials in 1973 and 1974 to discuss the increased price of supplies, commissions charged by Eastern on sale

of routes, the advertising program which was financed by the dealers, and recurrent problems with the quality of the ice cream mix. Eastern steadfastly maintained its position of requiring that all supplies be purchased from Ro-Fi and threatened the dealers with the loss of their franchises for violation of the all-requirements provision.

Early in 1975, at an annual meeting of Mister Softee dealers, prior to the start of the ice cream season, Eastern circulated a new price list of supplies. Esposito announced that he had checked the market and found the costs of supplies from Ro-Fi to be significantly higher than that in the open market. He stated that he and other dealers felt free to purchase from other sources on the open competitive market. Esposito started a cooperative buying program

in which he purchased various supplies for approximately 30 dealers on the open market. He purchased toppings (chocolate syrup, walnuts, cherries, butterscotch, marshmallow), as well as plastic items, banana boats, spoons, sundae dishes, napkins and cups without the Mister Softee trademark or logo. Prior to this co-operative effort, dealers on occasion had purchased supplies such as paper goods from non-designated sources. However, until Esposito organized the co-operative buying program, the purchases amounted to no more than a small fraction of the total volume of supplies purchased by six or seven dealers.

Eastern responded to the threat posed by Esposito's cooperative buying program by notifying him by letter dated

March 26, 1975 (Pl. Ex. 26) that his franchise would be terminated ten days after receipt of the letter for "violation of paragraph '3(f)' of your said agreement in that you have persistently purchased toppings, paper goods and other items from suppliers other than those designated by Mister Softee, Inc. Furthermore, you have induced other dealers to violate their agreements by selling to them such merchandise."[15] The day after receipt of the letter Esposito met with Kenneth Fielder and William Conway. Conway told Esposito that he would reinstate the franchise if he would abandon his plan to purchase from non-designated suppliers and see that others he had led astray returned to the fold. Esposito then instituted the instant action. Soon

after the institution of the action, William Conway announced at an annual convention of Mister Softee dealers that despite the restrictions in the franchise agreement, dealers were free to buy supplies on the open market. The extent to which dealers took advantage of the offer is not clear. The court infers that Esposito and his close associates continued to buy supplies from non-designated sources. By letters dated September 5, 1978 Eastern informed Frank Galante, Patrick Desabato and Gaspare Asaro that their continuing use of merchandise not approved by Mister Softee was jeopardizing their franchises. They were given ten days "to clear up [the] matter" or their franchises would be cancelled. (Pl. Ex. 28, 32).

In February 1979, Esposito and Donald Vujnovich formed a corporation known as Consolidated Vendors, Inc., which engaged in the business of selling ice cream mix and other supplies to soft ice cream dealers, including Mister Softee dealers. [16]

We now turn to evidence of the economic power of the franchisor over the tying products and to evidence of the volume of commerce affected. Of particular significance is the extent to which the public accepts soft ice cream sold under the trademark Mister Softee in the Queens-Nassau area.

The Federal Trade Commission, in a report dated October 15, 1970, listed Mister Softee as among the 83 largest franchisors in the country. [17]

Since the early 1960's there have been a number of soft ice cream dealers in the Nassau-Queens area. Some of these dealers have been engaged in mobile franchise operations similar to Mister Softee. For the most part, however, these competitors have been much smaller than Mister Softee, often operating only one or two trucks in the entire geographic area. Presently, Mister Softee is the only franchisor of mobile soft ice cream vendors in the Nassau-Queens area.[18] Of the 110 licensed mobile ice cream dealers (which includes mobile ice cream dealers dispensing hard ice cream) 94 are Mister Softee dealers.

Since 1969 Mister Softee has occupied a dominant position in the mobile soft ice cream business in the Nassau-Queens area. It has been the largest

such operation in the area, enjoying substantial prominence and good will. The overwhelming advantage of its trade-name and trademark gave Mister Softee substantial economic power in its ability to grant a franchise or threaten its termination.

Sales of tied products, i.e., toppings, novelties, plastics and paper goods by Ro-Fi to Mister Softee dealers totalled approximately $315,000 in 1969. While decreasing slightly in 1970 (approximately $290,000), sales increased steadily thereafter, reaching a volume in excess of one million dollars during the years 1976, 1977 and 1978. Business was off slightly in 1979 ($994,000).

Purchases by Ro-Fi of tied items have been in excess of $250,000 per annum

since 1969 and have been in excess of $500,000 since 1973. Purchases by Mister Softee of tied items for the period 1972 to 1975 exceeded $500,000.

Discussion

As we indicated at the outset, plaintiffs allege that the tie-in arrangement contravenes Section 1 of the Sherman Act, Section 3 of the Clayton Act and Section 15 of the Federal Trade Commission Act. We agree with the defendants, however, that no private right of action exists to redress violations of the Federal Trade Commission Act. See Fulton v. Hecht, 580 F.2d 1243 (5th Cir. 1978), cert. denied, ___U.S.___ 99 S. Ct. 1504 (1979); Alfred Dunill Limited v. Interstate Cigar Co., Inc. 499 F. 2d 232 (2d Cir. 1974). And because of our determination that the

plaintiffs have established a tie-in illegal under Section 1 of the Sherman Act we find it unnecessary to address the issue of defendants' liability under Section 3 of the Clayton Act.[19]

The Sherman Act Violation

As the Second Circuit Court of Appeals recently recognized in Hill v. A-T-O, Inc., 535 F.2d 1349, 1352 (2d Cir. 1976), "[t]he standards under which a tying arrangement conditioning the sale of one product upon the purchase of another is deemed to be a per se violation of the federal antitrust statutes are well established." The controlling standards were established by the Supreme Court in Northern Pacific R. Co. v. United States, 356 U.S. 1, 78 S.Ct. 514 (1958). There the Court held:

> [A] tying arrangement may be defined an [sic] an agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier . . . . They are unreasonable in and of themselves whenever a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product and a "not insubstantial" amount of interstate commerce is affected.

Id. at 6, 78 S. Ct. at 518 (quoting International Salt Co. v. United States, 332 U.S. 392, 68 S. Ct. 12 (1947)). This test for establishing a tying arrangement which is illegal per se was reaffirmed in Fortner Enterprises, Inc. v. United States Steel, 394 U.S. 495, 499, 89 S. Ct. 1252, 1256 (1969), and has been applied by the lower federal courts on numerous occasions. See Carpa, Inc. v. Ward Foods, Inc., 536 F.2d 39 (5th Cir. 1976); Hill v. A-T-O, Inc., supra;

Ungar v. Dunkin' Donuts of America, Inc., 531 F.2d 1211 (3d Cir.), cert. denied, 429 U.S. 832, 97 S. Ct. 74 (1976); Bogasion v. Gulf Oil Corp., 561 F.2d 434 (3d Cir. 1977), cert. denied, 434 U.S. 1086, 98 S. Ct. 1280 (1978); Siegel v. Chicken Delight, Inc. 448 F.2d 43 (9th Cir. 1971), cert. denied, 405 U.S. 955, 92 S. Ct. 1172 (1972); Susser v. Carvel Corp., 332 F. 2d 505 (2d Cir. 1964).

In the present instance, plaintiffs contend that the tying product is the Mister Softee trademark. While some courts have expressed doubt as to whether a trademark can ever constitute a separate tying product for purposes of the Sherman Act, see Ungar v. Dunkin' Donuts of America, Inc., supra, 531 F.2d at 1215

n.4; Redd v. Shell Oil Co., 524 F.2d 1054, 1057 (10th Cir. 1975), cert. denied, 425 U.S. 912, 96 S. Ct. 1508 (1976), the Second Circuit has answered this query in the affirmative. See Capital Temporaries, Inc. v. Olsten Corp., supra.

It is abundantly clear from the evidence before the court that the defendants, acting in concert, imposed a tying arrangement upon the plaintiffs by conditioning their right to use the trademark of Mister Softee upon their purchasing of all their supplies from a designated supplier. The court also concludes that the defendants had sufficient economic power in connection with the tying product to appreciably restrain

competition in the market for the tied products and that a "not insunstantial" amount of interstate commerce has been affected.

Of course, the mere fact that the tying product is a trademark does not, at least in this circuit, automatically signal the requisite degree of economic power over the tying product. Capital Temporaries, Inc. v. Olsten Corp., supra, 506 F.2d at 663; Susser v. Carvel Corp., supra, 332 F.2d at 518-521. Accord, Carpa, Inc v. Ward Foods, Inc., 536 F. 2d 39, 48 (5th Cir. 1976). But see Siegel v. Chicken Delight, Inc., 448 F. 2d 43, 50 (9th Cir. 1971). "What is required is a factual assessment of the

tying product's uniqueness and desirability . . . " Carpa, Inc. v. Ward Foods, Inc., supra, 536 F.2d at 48. The applicable standard remains that enunciated by the Supreme Court in Fortner Enterprises, Inc. v. United States Steel Corp., supra, at 503, 89 S. Ct. at 1258.

> [T]he proper focus of concern is whether the seller has the power to raise prices, or impose other burdensome terms such as a tie-in, with respect to any appreciable number of buyers within the market. (Emphasis added.)

It is unnecessary to engage in the type of market analysis which is pertinent under Section 2 of the Sherman Act. For purposes of establishing

an illegal tie-in, "sufficient economic power" over the tying product.

> does not . . . require that the defendant have a monopoly or even a dominant position throughout the market for the tying product. [It is] unmistakenably clear that the economic power over the tying product can be sufficient even though the power falls far short of dominance and even though the power exists only with respect to some of the buyers in the market . . . . Even absent a showing of market dominance, the crucial economic power may be inferred from the tying product's desirability to consumers or from uniqueness in its attributes.

Id. at 502-503, 89 S.Ct. at 1258.

As we have already noted, Mister Softee is the only franchisor of mobile soft ice cream vendors in the Queens-Nassau area. Of the 110 licensed mobile vendors of ice cream (both soft and hard) 94 are Mister Softee dealers. We believe that Mister

Softee's economic position satisfies the standards established in Fortner Enterprises v. United States Steel Corp., supra. The strength and public acceptance of Mister Softee's trademark gave defendants the market position to compel numerous individuals desirious of obtaining the advantages of doing business under the trademark, to purchase all of their supplies from Ro-Fi and thus to significantly restrain competition in the market for the tied products.[20] The defendants ask us to judge Mister Softee's economic position vis-a-vis the entire retail ice cream market in Nassau and Queens. They would have us measure Mister Softee against such well-known ice cream outlets as Howard Johnson's, Baskin Robins,

and Friendly's, as well as the literally countless retail stores that dispense ice cream as part of their overall retail food operations. Defendants seek to blur the distinction between mobile units and retail stores, between franchisees and owner-operators. However, in our view such distinctions are crucial to appreciating the economic power which Mister Softee could exert over prospective franchisees. As we have already noted, Mister Softee's economic dominance over the ice cream market, while relevant for purposes of Section 2 of the Sherman Act, provides no useful measurement in this case. We must focus on the extent to which the Mister Softee trademark would represent a valuable business asset

to an individual interested in such an enterprise. The fact that consumers are free to purchase ice cream from many different sources and that other business opportunities may be available to those with enough funds to purchase retail stores or restaurants is simply irrelevant for present purposes.

The court also finds that "a not insubstantial amount of interstate commerece has been affected" by the tie. All that is required is that the amount of commerce affected not be de minimis.

> The requirement that a "not insubstantial" amount of commerce be involved makes no reference to the scope of any particular market or to the share of that market foreclosed by the tie . . . But normally the controlling consideration is simply whether a total amount of business,

> substantial enough in terms of dollar volume so as not to be merely de minimis, is foreclosed to competitors by the tie . . .

Fortner Enterprises, Inc. v. United States Steel Corp., supra, at 501, 89 S. Ct. at 1258. See Hill v. A-T-O, Inc., supra, 535 F.2d at 1353.

Plaintiffs have shown that the dollar volume of supplies affected by the tie-in has not been de minimis. Sales of tied products by Ro-Fi have been in excess of $250,000 per year since 1969 and have, in many years, approached or surpassed the $1,000,000 level. Such sales establish that a not insubstantial amount of interstate commerce has been affected by the tying arrangement.

The court finds that the plaintiffs have established a clear tying arrangement which is per se illegal under the test established by the Supreme Court in Northern Pacific R.Co. v. United States, supra. The defendants, however, have attempted to avoid liability by asserting numerous defenses to the charge. First, defendants argue that plaintiffs have failed to show that they were required to purchase unwanted or unneeded merchandise. Essentially, this claim is that the plaintiffs were not "coerced" into buying the tied products but would have bought them in any case. Of course, it cannot be argued that any of the tied items were unneeded; the franchisees needed these products in order to carry on their business. But an otherwise illegal tie-in is not saved from the

Sherman Act's interdiction merely because the tied products were needed by the purchasers of the tying product. If they are forced by the economic dominance of the seller, or by the tying product's uniqueness or desirability to forego certain sources of supply in favor of those thrust upon them by the seller, the fundamental principles of the Sherman Act have been assaulted. The basic evil inherent in tying arrangements is that

> [t]hey deny competitors free access to the market for the tied product, not because the party imposing the tying requirements has a better product or a lower price, but because of his power or leverage in another market. At the same time buyers are forced to forego their free choice between competing products.

Northern Pacific Railway Co. v. United States, supra, at 6, 78 S.Ct. at 518.[21]

Much has been written about the necessity to prove "coercion" in any action alleging an illegal tie-in. The only thing that can be said with absolute certainty on the subject is that the concept has proved elusive. Most of the courts which have addressed the question have concluded that coercion is an element of proof in a tying claim where a party seeks to establish the existence of a tie-in that is not reflected in a written agreement. See Bogosian v. Gulf Oil Corp., supra; Ungar v. Dunkin' Donuts of America, Inc., supra; American Manufacturers Mutual Insurance Co. v. American Broadcasting-Paramount Theatres, Inc., 446 F.2d 1131 (2d Cir. 1971), cert. denied, 404 U.S. 1063, 92 S. Ct. 737 (1972). Indeed, this court noted these

decisions in an earlier opinion in this action certifying the plaintiff class, Esposito v. Mister Softee, Inc., No. 75 C 555 (E.D. N.Y. May 15, 1976). It is true that in Capital Temporaries, Inc. v. Olsten Corp., supra, the Second Circuit Court of Appeals indicated that a plaintiff may not rest upon a written contract's creation of a tying arrangement.

> Quite obviously, a franchise agreement, like any contract of sale, may obligate the purchaser to accept numerous commodities trademarked or not; this does not mean that the purchaser was coerced in any fashion to take some or all to get one or some.

506 F.2d at 666. But the more recent Second Circuit decision in Hill v. A-T-O, Inc., supra, makes clear that coercion is not a separate element of a tie-in claim.

> An unremitting policy of tie-in, if accompanied by sufficient market power in the tying product to appreciably restrain competition in the market for the tied product constitutes the requisite coercion under Capital Temporaries, given foreclosure of a not insubstantial volume of interstate commerce.

535 F.2d at 1355. Of course, the facts of the instant case also belie any claim that the defendants did not engage in a continuous course of conduct designed to coerce the plaintiffs into adhering to the tie-in arrangement explicitly contained in their franchise agreements. Moreoever, the plaintiffs' conduct of seeking alternative sources of supplies makes it abundantly clear that the tied products were purchased from Ro-Fi only reluctantly and because of the fear of franchise termination or other reprisal.

Defendants also contend that the conduct of some members of the plaintiff class in purchasing products on the open market in violation of the tying agreement now defeats the class claim. Prior to 1975 some dealers surreptitiously bought tied products from suppliers other than Ro-Fi. After 1975 the practice became more widespread and notorious as Esposito and others organized a cooperative buying program. However, despite these efforts to minimize the impact of the tying arrangement, the defendants' enforcement of thier purchasing policy still had the effect of restraining competition in the market for the tied items in violation of Section 1 of the Sherman Act. The failure of Mister Softee, Eastern and Ro-Fi to achieve full compliance with the illegal tying scheme is no defense.

Cf. United States v. Socony-Vacuum Oil Co., 310 U.S. 150, 224 n.59, 60 S.Ct. 811, 845 n. 59 (1940).

Defendants also assert that the tying provisions contained in the franchise agreements were both reasonable and necessary to protect the trademark and name of Mister Softee. It has been recognized that "[t]ying arrangements differ from other per se violations, such as price fixing . . . in that they can be justified on occasion . . ." Susser v. Carvel, supra, 332 F.2d at 519. Of course, the burden is upon the party asserting the defense to supply an adequate business justification for an othewise illegal tie-in. Carpa, Inc. v. Ward Foods, Inc. 536 F.2d at 46. In some situations the

desire and need to protect goodwill may legitimize the use of a tying arrangement. "Since the value of a trademark depends solely on the public image it conveys, its holder must exercise controls to assure himself that the mark is not shown in a derogatory light." Id. However, a party may not seek refuge behind this limited defense by merely pointing to its desire, albeit genuine, to maintain the quality of its products and thereby protect the value of its name. As the Supreme Court has indicated, this justification

> fails in the usual situation because specification of the type and quality of the product to be used in connection with the tying device is protection enough . . . . The only situation, indeed, in which the protection of goodwill may necessite the use of tying clauses is where specifications for a substitute would be so detailed that they could not practicably be supplied.

Standard Oil Co. of California v. United States, 337 U.S. 293, 306, 69 S.C. 1051, 1058 (1949).

In the instant case we cannot conceive of any legitimate business justification for imposing a tie-in upon the plaintiffs with respect to numerous paper goods and novelties used in connection with the sale of Mister Softee ice cream. Admittedly, these products are essential to the operation of the franchise, frequently carrying the Mister Softee trademark. However, the pertinent issue is whether it is essential that the goods be purchased from Ro-Fi. Siegel v. Chicken Delight, Inc., supra, 448 F.2d at 49. None of the items are manufactured by the defendants. They are purchased from manufacturers, wholesalers or distributors

who are equally accessible to the dealers. These common articles, "which the public has no reason to connect with the trademark," id., can be easily produced by any competent manufacturer of similar products. "One cannot immunize a tie-in from the antitrust laws by simply stamping a trademark symbol on the tied product--at least where the tied product is not itself the product represented by the mark." Id. at 52.

The issue is a closer one regarding the Mister Softee Mix. Maintaining the quality of this product is, of course, essential to the continuing success of Mister Softee. In a similar context, Judge Friendly has indicated:

> "Although instances of impossibility of control through specification may indeed be rare in cases involving the proper functioning of mechanical elements of a machine . . .such cases are scarcely relevant to the problem of controlling something so insusceptible of precise verbalization as the desired texture and taste of an ice cream cone or sundae; that Carvel was able to specify this to its source of supply, whose product it regularly checked, does not show that administration could be confided to 400 dealers.

Susser v. Carvel, supra, 332 F.2d at 520 (majority opinion). However, we do not believe that this language is dispositive in the instant case. This is not a case like Susser, where the ice cream sold was manufactured according to a secret formula. The protection of such a bona fide trade secret may justify a seller's refusal to provide the

specifications necessary to allow substitutes for the tied products. Siegel v. Chicken Delight, Inc., supra, 448 F.2d at 51 n.9. However, James Conway, one of the principal officers of Mister Softee, indicated that the mix was not something "that somebody else couldn't duplicate." (R.778). The defendants have failed to show that their legitimate interest in ensuring product quality and protecting the goodwill attached to the Mister Softee trademark would not be adequately protected by "product specifications or reasonably granting approval of outside suppliers after testing products at the manufacturing and distribution level . . . ." Carpa, Inc. v. Ward Foods, Inc., supra, 536 F.2d at 46. See Kentucky Fried Chicken Corp. v. Diversified Packaging Corp., 376 F.Supp.

1136, 1148 (S.D. Fla 1974), aff'd., 549 F.2d 368 (5th Cir. 1977). Furthermore, defendants have gone far beyond merely designating Hortsmann as the sole authorized source of Mister Softee mix. They have insisted that franchisees purchase this dairy's mix through Ro-Fi. Clearly, such a requirement which has prevented franchisees from buying directly from the dairy can in no way be justified by Mister Softee's desire to ensure the quality of its mix.

We also reject the notion that a reasonable justification for requiring the purchase of mix through Ro-Fi is that it provides a convenient method for ascertaining compensation for the use of the trademark, such compensation being based on the amount of mix purchased by an

individual dealer. We agree with the Ninth Circuit that such an argument is unpersuasive.

> There is no authority for justifying a tying arrangement on this ground. Unquestionably, there exist feasible alternative methods of compensation for the franchise licenses . . . which would neither involve tie-ins or have undesirable anticompetitive consequences.

Siegel v. Chicken Delight, Inc., supra, 448 F.2d at 51.

Finally, defendant Mister Softee argues that because it had no economic interest in the sale of tied products by Ro-Fi to the franchisees it cannot be held, as a matter of law, to have imposed an illegal tie-in in violation of Section 7 of the Sherman Act. Alternatively, Mister Softee contends that absent such an economic interest in the market for the tied products, and the

resulting inference of predatory use of market leverage, the legality of the tie-in must be viewed under the rule of reason standard and not the per se approach of Northern Pacific R. Co. v. United States.

Neither Northern Pacific R. Co. v. United States, nor Fortner Enterprises, Inc. v. United States Steel Corp. contain any language which would indicate the liability imposed upon the seller of the tying product will vary, to any extent, depending upon whether that party has an economic interest in the sale of the tied products. Of course, "in the more common form of tying agreement, the tying seller is also the seller of the tied product . . . " Johnson v. Nationwide Industries, Inc., 450 F. Supp. 948,

950 (N.D. Ill. 1978). However, where the seller of the tying product and the seller of the tied product have been separate entities, the lower federal courts, notwithstanding the absence of any directive from the Supreme Court, have held that "[w]hen the victim of an alleged tie-in is not required to buy a single unit of the tied product from the tying party or from any source in which the tying party has an interest or on whose sales the tying party earns a commission, the arrangement simply does not constitute a tie-in." Kentucky Fried Chicken v. Diversified Packaging, 549 F.2d 368, 378-79 (5th Cir. 1977). See Keener v. Sizzler Family Steak Houses, 597 F.2d 453, 456 (5th Cir. 1979). ("There is no illegal tying arrangement where a 'tying'

company has absolutely no interest in the sales of a third company whose products are favored by the tie in"); Ohio-Sealy Mattress Mfg. Co. v. Sealy, Inc., 585 F.2d 821 (7th Cir. 1978), cert. denied, _____U.S._____, 99 S. Ct. 1267 (1979); Moore v. Jas. H. Matthews & Co., 550 F.2d 1207 (9th Cir. 1977); Venzie Corp. v. United States Mineral Prod. Co., Inc., 521 F.2d 1309 (3d Cir. 1975).

Mister Softee, however, cannot escape liability in the instant case by claiming that it has no economic interest in the sale of tied products to its franchisees. First, it is clear from the evidence adduced at trial that quite apart from the service charge paid by franchisees upon the purchase of ice cream mix, Mister Softee has been financially involved in the sale of tied products

to the members of the plaintiff class. It has profited by the sale of Mister Softee trucks to its franchisees. It has also sold some of the tied products to Ro-Fi and some of the ingredients of the ice cream mix to Hortsmann Dairy. Mister Softee cannot avoid these simple facts by pointing to its balance sheet in an effort to show that these sales were, by some calculation, unprofitable. Similarly, the fact that after 1970 Mister Softee turned over this supply function to C & C, a company-owned and controlled exclusively by the two principals of Mister Softee, in no way insulates Mister Softee from liability. Cf. United States Steel v. Fortner Enterprises, 429 U.S. 610, 613, 97 S. Ct. 861, 864 (1977) (Because of their

common ownership and management, it is proper to regard two corporations as a single entity.) In addition, Mister Softee received a tangible economic benefit in that it used the tie-in arrangement as part of the consideration given to Eastern to induce the latter to act as its regional distributor.

Moreover, Mister Softee clearly orchestrated the restraint of trade which we today find illegal. Indeed, Mister Softee drafted the contracts entered into by Eastern and the plaintiffs that form the basis of the charged anti-trust violation. It was by operation of this conspiracy to impose burdensome conditions upon the franchisees that Eastern and its alter ego, Ro-Fi, reaped substantial profits from the sale of tied products. Cf. United States Steel

v. Fortner Enterprises, supra. Under the circumstances, we believe that even if Mister Softee itself had no direct financial stake in the sale of the tied products, it would be appropriate to apply the rule that a party "may be held liable as [a] member [] of a conspiracy to restrain trade by means of the tying agreement." Imperial Point Collonades Condominium v. Mangurian, 549 F.2d 1029, 1043 (5th Cir.), cert. denied, 434 U.S. 859, 98 S. Ct. 185 (1977). Cf. Perma Life Mufflers, Inc. v. International Parts Corp., 392 U.S. 134, 144, 88 S. Ct. 1981, 1987 (1968). With the additional evidence of Mister Softee's pecuniary interest in the success of the tie-in scheme, our conclusion is reinforced.

Conclusion

The court finds that plaintiffs have proven that the defendants acting in concern and with a singularity of purpose, violated Section 1 of the Sherman Act and that the violation proximately caused injury to the members of the plaintiff class.

The parties are directed to appear before the court on January 4, 1980 at 11:30 a.m. in order to schedule discovery on the issue of damages. [22]

S/

U.S.D.J.

FOOTNOTES

1. The original defendants in this action were Mister Softee, Eastern, Ro-Fi, and Fi-Zo Corporation (Fi-Zo). Fi-Zo owns the realty where the Mister Softee depot in Queens is operated. During the trial the parties stipulated to dismiss Fi-Zo from the action. Over the objection of Mister Softee, C & C was added as a party defendant.

2. Section 1 of the Sherman Acts states in pertinent part:

   Every contract, combination in the form of trust or otherwise or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal."

   Section 3 of the Clayton Act provides in pertinent part:

   It shall be unlawful for any person engaged in commerce, in the course of such commerce, to . . . make a sale or contract for sales of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption,

or resale within the United States . . . on the condition, agreement, or understanding that the . . . purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies or other commodities of a competitor of the . . . seller, where the effect of . . . such condition, agreement or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

Section 15 of the Federal Trade Commission Act makes unlawful "[U]nfair methods of competition in commerce, and unfair or deceptive acts or practice in commerce." The Federal Trade Commission is empowered to prevent such practices.

3. The court, by order dated June 3, 1979 certified the class as "all present franchisees in contractual relationships with defendant Mister Softee Eastern New York Div., Inc., and any individual, partnership or corporation who at any time heretofore had been in contractual relationship under a franchise agreement with Mister Softee Eastern New York Div., Inc."

4. On July 15, 1957, Mister Softee filed the name and mark on the principal register of the U.S. Patent Office under registration No. 663, 546, and on September 23, 1958, filed a variation of the mark under registration No. 667,335.

5. Soft ice cream is drawn from the freezer at almost 16 degrees Fahrenheit and sold when the product is at that temperature. Hard ice cream, on the other hand, comes out of the ice cream equipment at about 26 degrees Fahrenheit and is then deposited in containers where it is subject to a quick freezing process.

6. Eastern assigned the rights acquired under the contract to the upstate counties and retained the rights to Queens, Nassau and Suffolk.

7. Mister Softee is designated as the "First Party" and Eastern as the "Second Party."

> The First Party hereby grants to the Second Party, so long as this Agreement is in effect, the exclusive franchise and right to direct, appoint, and sell "MISTER SOFTEE" franchises, mobile equipment, and other equipment, and supplies and merchandise to approved Dealers in the area described as follows:
>
> The Following Counties in New York State:

ALBANY, SCHENECTADY, GREENE, ULSTER, SULLIVAN, RENSSELAER, ORANGE, ROCKLAND, COLUMBIA, WASHINGTON, SARATOGA, WARREN, DUTCHESS, PUTNAM, UPPER WESTCHESTER, LOWER WESTCHESTER, QUEENS, NASSAU, WESTER SUFFOLK, EASTERN SUFFOLK

Second Party agrees to exactly follow the sales plan, procedures and policies of the First Party and to never at any time be a party to or commit First Party orally or otherwise, to any statements or agreements which are not first approved by the First Party. Second Party specifically agrees that all Agreements, contracts and purchase orders are to be entered into and made between the Second Party and others, on standard contracts approved by the First Party.

It is understood and agreed that First Party retains the right to change or modify the standard Franchise Dealer Agreement at any time and to reject any and all Franchise and Dealership Sales Agreements presented for approval, any such rejections shall be only made with reasonable or

good and sufficient cause. First Party need not pay any sales commissions on any rejected sale. It is further understood and agreed that the First Party may modify, amend and competitively change the price and terms of the purchase of parts, equipment, and supplies at any time.

Second Party agrees that upon receipt of all checks and drafts from Franchise Holders and Dealers for equipment that the Second Party shall immediately forward the said sums by the next mail to the First Party. If the entire purchase price for a truck or equipment is received by the Second Party prior to delivery of the truck or equipment by the First Party, the Second Party may retain its commission in accordance with Paragraph 12 and remit the difference to the First Party.

To sell the mobile ice cream trucks known as "MISTER SOFTEE" at full list price as established by the First Party at all times. The Second Party agrees to charge fifteen (15) cents a gallon on all mix sold by the Second Party to individual dealers over the retail price for a gallon of mix as established by the First Party.

The First Party and Second Party agree that ten (10) cents per gallon collected should be disbursed according to Paragraph 12(b) and that five (5) cents per gallon collected should be used solely for the promotion and advertising purposes in its territory to advance the retail sales program. Second Party agrees that the First Party has the right to audit the books of the Second Party as to the amount and the expenditures of same at any time.

Second Party agrees to save First Party and its representatives free and harmless from any liabilities arising out of actions or representation of Second Party, it being understood that Second Party is an independent contractor and not an employee of First Party.

8. Francis Conway testified that most of the Mister Softee trucks were built between 1958 and 1964. No new trucks were built between 1964 and 1974. Production resumed in 1974 (Tr. 831). Though "individual dealers . . . built their own mobile Units" (Tr. 831-A) he was only able to recall one dealer--Wes Pierre--who did so.

9. The quoted all-requirements provision is the language of par. 3(f) of the contract between Eastern and Annibale Cappelleri dated February 3, 1968; the Esposito contract dated April 25, 1969; the Daly contract dated July 5, 1971; the Esposito contract dated March 16, 1973; and the Alava contract dated March 23, 1973. The phraseology varied over the years as the form was modified from time to time. Another form requires the dealer "to maintain and operate his 'Mister Softee' mobile ice cream truck in strict conformance with the plans, procedures and policies therefore from time to time prescribed by Mister Softee, Inc. . . . and not to sell any soft ice cream product or frozen dessert from any mix other than 'Mister Softee' proprietary soft-serve ice cream or frozen dessert mix . ." Par.3 & 3(d) of Toro contract dated April 9, 1969.

In January, 1976, the all requirements provision of the dealer franchise agreement was revised to read as follows:

> Dealer agrees that he will not without written approval from Mister Softee, Inc., and Distributor sell any other products from his 'Mister Softee' truck[s] except ice cream, frozen

desserts or other products approved and authorized by Mister Softee and purchased from suppliers approved and authorized by Mister Softee, Inc., in accordance with its specifications.

10. The sales franchise distributor agreement provided that out of royalties collected, 5 cents per gallon was to be retained by Eastern for promotion and advertising purposes in its territory (par. 13). Of the balance, 70 per cent was to be retained by Eastern and 30 per cent remitted to Mister Softee. Par.12(b) provides that Mister Softee agrees to pay Eastern

> 70% of the amount of the competitive retail price minus the volume price paid by the First Party (Mister Softee) for mix, toppings, flavoring and other supplies sold by the Second Party [Eastern] to the Dealers or Franchise Holders in the aforementioned territory.

11. The dealer was also required to pay a fee of $250 for the preparation of a new dealer franchise agreement "and any and all other expenses incurred by Representative and Mister Softee, Inc. in affecting said transfer."

12. Ro-Fi also supplied dealers with hard ice cream and ices. Some of the supplies, e.g., spoons, napkins and straws, had the Mister Softee trademark and logo.

13. N.Y.State Health Department regulations required mobile soft ice cream dealers to park at authorized depots. During the period 1969 to 1975 the only depots available to Mister Softee dealers that was in the Borough of Queens was the Mister Softee depot in Queens Village.

14. The complaint concerning the mix purchase from Hortsmann involved only the chocolate mix that "specked out"--solid chips of chocolate appeared in the ice cream. Ro-Fi thereafter stocked two brands of mix, i.e., Hortsmann and Elmhurst Dairy.

15. The letter also directed Esposito to deliver his truck to the depot at 215-04 Hempstead Avenue, Queens Village, New York for the purpose of being purchased pursuant to paragraph 9(a) of his agreement.

16. This court by order dated March 8, 1976 enjoined defendants "from terminating the franchise agreement because of breaches of the alleged tie-in provisions and upon

condition that plaintiffs abide by the terms and provisions under the franchise agreement relating to the purchase of goods and services from defendants . . ."

17. The recognition by the public of the product under the Mister Softee trademark nationally would also bear on the economic power of the franchisor over the tying product locally.

18. Until 1976 a Carousel franchise system operated in Brooklyn and Queens with between 8 to 30 franchises.

19. The issue, however, is an interesting one. The threshold question is whether a trademark can be characterized as "goods, wares, merchandise, machinery, supplies or other commodities" within the meaning of Section 3 of the Clayton Act. (Emphasis added.) No case has been cited to the court, nor has our own search unearthed a case deciding this issue. At this point we note only that the defendants misread Capital Temporaries, Inc. v. Olsten, 506 F.2d 658 (2d Cir. 1974), when they cite it for the proposition that a trademark is not a commodity. In that case the claim was that in order to obtain a license to use the defendant's trademark "Olsten" in

connection with the business of supplying white collar temporary help, plaintiff was required to operate a blue collar temporary service under defendant's trademark "Handy Andy". The court held:

> There is no claim made that the tradename or mark here tied any commodities. It is only alleged to have tied the blue collar temporary personnel business, which we would conclude is a service and not a "commodity". Hence section 3 of the Clayton Act is inapplicable.

Id. at 661 n.1 (emphasis in original).

We have also confined our determination to plaintiffs' claim of an illegal tie-in. We leave for another day and another forum the plaintiffs' allegations regarding the defendants' policies of requiring franchisees to contribute to an advertising fund and to pay a fee upon the sale of a franchise. In our view such claims are not cognizable under the federal antitrust laws.

20. We do not view Susser v. Carvel Corp., 332 F.2d 505 (2d Cir. 1964), as requring a different conclusion. Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 89 S. Ct. 1252 (1969), decided some five years later, makes it clear that market monopoly or even dominance is not the proper measure of a party's ability to appreciably restrain competition in the market for the ties product.

21. Defendants also take the position that the plaintiffs have failed to establish a violation of Section 1 of the Sherman Act because they have not shown that the tied merchandise was overpriced. However, the evidence at trial was clearly to the contrary. There was substantial proof that the merchandise could have been purchased on the open market at prices lower than that charged by Ro-Fi.

22. At that time the court will also hear argument on: (1) the extent to which the applicable statute of limitations see Section 4B of the Clayton Act, 15 U.S.C. Section 15b, limits the amount of damages which the plaintiffs may seek; and (2) the dissolution or modification of the preliminary injunction pending entry of judgment.

MEMORANDUM DECISION AND ORDER OF
MISHLER, J. DATED APRIL 8, 1983

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

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VINCENT ESPOSITO, WEST PIERRE, MIKE DeLAPE, LEE SPENCER, ERNEST HODGES, DANIEL A. SMITHY, MIKE MINITELLO and AL SPENCER, on Behalf of All Present and Former Mister Softee Franchisees in the Queens-Nassau Area,

Plaintiffs,

-against-

MISTER SOFTEE, INC., and MISTER SOFTEE EASTERN NEW YORK DIV., INC., RO-FI CORP., and C & C DISTRIBUTORS, INC.,

Defendants.

75 CV 555

Memorandum Decision and Order

April 8, 1983

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MISHLER, District Judge

Plaintiffs brough this anti-trust action in 1975 alleging, inter alia, violations of Section 1 of the Sherman Act, 15 U.S.C. Section 1.[1] Plaintiffs[2] are franchisees of Mister Softee, Eastern New York Division, Inc. ("Eastern"). The defendants are Mister Softee, Inc. ("Mister Softee"), Eastern, Ro-Fi Corp. ("Ro-Fi") and C & C Distributors, Inc. ("C & C"). After a trial on the issue of liability, this court, in a memorandum of decision dated and filed December 13, 1979, found that defendants violated Section 1 of the Sherman Act, 15 U.S.C. Section 1. The franchise agreements made with the individual members of the plaintiff class illegally required the purchase from a designated

source (Ro-Fi), of toppings, novelties, plastics and paper goods under the license to use the tradename and trademark, "Mister Softee". The court concluded that this tie-in scheme proximately caused injury to members of the plaintiff class, and directed the parties to schedule discovery in preparation for a trial on the issue of damages.[3] That issue was tried to the court on November 8, 9, and 10, 1982. The damage period was previously determined to be April 15, 1971 to June 29, 1979.[4] See memorandum of decision dated March 18, 1980. Familiarity with the court's prior decisions respecting this action is assumed for purposes of this decision.

Plaintiffs' Theory of Damages

Plaintiffs claim that the measure of damages is the difference between (a) the price paid by members of the plaintiff

class to Ro-Fi for the tied items (mix, novelties, hard ice cream, toppings, plastic goods, paper goods), and (b) the cost of these items to Ro-Fi. Damages are calculated by plaintiffs to be $1,006,016.[5] Plaintiffs also claim royalties paid in the amounts of $555,679 as an item of damage.

Plaintiffs base this theory of damages on the assumption that, in a free market, the dealers would have organized a co-operative buying group with the purchasing power to buy merchandise at prices comparable to those available to Ro-Fi. Indeed, some of the dealers had formed an association known as the Five County Soft Ice Cream Dealers Association ("Five County") in 1969. Its original purpose

was rather obscure. Five County ceased to function soon after it organized because of theatened franchise termination based upon the purchase of goods from a non-designated source. Five County was renewed in 1972 when Esposito assumed the presidency in response to complaints about the chocolate mix and the threat of substantial price increases for the mix and other tied products. Esposito and a few other dealers purchased some supplies during 1972 to 1974.[6] However, the dealers did not organize as a co-operative purchasing body. (See Liab. Tr. June 29, 1979, pp. 157-63).[7]

Some time in early 1975 Esposito, West Pierre and Mike DeLape (named plaintiffs) began what plaintiffs describe as a cooperative buying program. Esposito had made his intention known to defendants. Eastern gave Esposito notice

by letter dated March 26, 1975 of intended termination of his franchise. This action was commenced on April 14, 1975. Soon thereafter, William Conway, president of Mister Softee, Inc., announced at the annual convention of Mister Softee dealers that franchisees were free to buy supplies on the open market. Few dealers however joined in a total cooperative buying effort.[8] On March 8, 1976 the court enjoined defendants from terminating any franchise for breach of provisions of the franchise agreements requiring the purchase of goods and services from defendants. Esposito and three other dealers left the Ro-Fi depot in 1976 and parked their trucks on a rented lot in Broad Channel, Queens. The four dealers purchased supplies as a unit. After one

season, they moved to a depot on Atlantic Avenue (C & M Depot) which provided them (and a cooperative purchasing group of ten to twelve Carousel franchisees), with the facilities necessary to operate their businesses. (Dam. Tr. pp. 1.96-1.98).

In February 1979, Esposito and Donald Vynovich, a Mister Softee dealer, organized Consolidated Vendors Corp.("CV"), to engage in the business of distributing supplies to Mister Softee dealers and other mobile dealers in soft and hard ice cream. CV also provided facilities for parking ice cream trucks. CV has one employee in addition to Esposito and Vynovich. Esposito and Vynovich each draw a weekly salary of $600 from CV. (Dam. Tr. pp. 1.195-1.196). CV purchases supplies from distributors

and, in direct competition with Ro-Fi, sells the merchandise to dealers with a 20 to 30 percent markup. (Tr. pp. 1.202-1.203).[9]

DISCUSSION

I. Proof of Damages

We are guided here by the "traditional rule excusing anti-trust plaintiffs from an unduly rigorous standard of proving anti-trust injury." See J. Truett Payne Co. v. Chrysler Motor Corp., ____U.S.____, 101 S. Ct. 1923, 1929 (1981);[10] Zenith Radio Corp. v. Hazeltine Research, 395 U.S. 100, 123-24, 89 S. Ct. 1562, 1576 (1969); Story Parchment Co. v. Patterson Parchment Paper Co., 282 U.S. 555, 562-67, 51 S. Ct. 148, 250-52 (1931). In Bigelow v. R.K.O. Radio Pictures, 327 U.S. 251,

66 S. Ct. 579, an action involving market preclusion brought under the Sherman Act, the United States Supreme Court explained that:

> [W]here the defendant by his own wrong has prevented a more precise computation, the jury may not render a verdict based on speculation and guesswork. But the jury may make a just and reasonable estimate of the damage based on relevant data, and render its verdict accordingly. In such circumstances "juries are allowed to act on probable and inferential as well as [upon] direct and positive proof." . . . Any other rule would enable the wrongdoer to profit by his wrongdoing at the expense of his victim. It would be an inducement to make wrongdoing so effective and complete in every case as to preclude any recovery, by rendering the measure of damages uncertain. (citations omitted).

327 U.S. at 264, 66 S. Ct. at 579-80.

The Court in Bigelow applied the general principle "that the wrongdoer shall bear the risk of uncertainty which his own wrong has created," observing that the "principle is an ancient one, Amory v. Delamirie, 1 Strange 505, and is not restricted to proof of damage in anti-trust suits, although their character is such as frequently to call for its application." Bigelow, supra, 327 U.S. at 265, 66 S. Ct. at 580.[11]

While the wrongdoer shall bear the risk of uncertainty, the antitrust plaintiff is not free from some burden of proof respecting damages. The relaxed rule for proving damages, once the anti-trust violation is established, has its limitations. The estimate or approximation of damages must be based on relevant data.

Bigelow v. R.K.O. Radio Pictures, supra, U.S. at 264, S. Ct. at 579; Bell v. Cherokee Aviation Corp., 660 F.2d 1123, 1133 (6th Cir. 1981); Bamosky Oil, Inc. v. Union Oil Co. of California, 665 F.2d 74, 83 (6th Cir. 1981); Kestenbaum v. Falstaff Brewing Corp., 514 F.2d 690, 695 (5th Cir. 1975), cert. denied, 424 U.S. 943, 96 S. Ct. 1412 (1976).

In a tying arrangement violation of the Sherman Act, "the measure of damages is the difference between the price actually paid for the tied product and the price at which the product could have been obtained in the open market." Bell v. Cherokee Aviation Corp., supra, 660 F.2d at 1133; Northern v. McGraw Edison Co., 542 F.2d 1336, 1347 (8th Cir. 1976), cert. denied sub nom; McGraw Edison v. Soper, 429 U.S. 1097, 97 S. Ct.

1115 (1977); Poque v. International Industries, Inc., 524 F.2d 342, 344 (6th Cir. 1975); Gray v. Shell Oil Company, 469 F.2d 742, 751 (9th Cir. 1972). Thus, our focus here is the price that could have been obtained by plaintiffs in the open market, based upon such relevant information as will permit an award of damages against the wrongdoer without mere speculation or conjecture.

II. Plaintiffs' Theory of Damages

At the outset, we reject Ro-Fi's cost (variously described as "depot" price, wholesale price or group purchasing price) as representative of the open market where the tied products could have been obtained. Defendants were found liable with respect to an illegal tying arrangement which prevented the plaintiff class from purchasing certain items from other sources.

We hold that the relevant market here is the retail price of otherwise tied items to individual members of the plaintiff class from other local suppliers. The prospect of Mister Softee dealers purchasing cooperatively at group or depot prices without further costs is unrealistic. Further, we find that no significant group purchasing activity has been show here, particularly in the period after 1976 when purchasing restrictions were lifted. Thus, the opportunity for cooperative purchasing by these plaintiffs is irrelevant in determining damages here.

Ro-Fi is a "depot". This term refers to a physical location that provides various services to individual truck operators (franchisees), such as enclosed overnight parking facilities with access to electric power to maintain truck refrigeration and truck cleaning facilities

to permit conformance with health code requirements. Rent is charged for these and other services and they are not at issue here. A depot is also a physical location that receives and stores various supplies (e.g., mix, milk, novelty items and paper goods), some of which require refrigerator or freezer storage. A depot manufactures nothing, but purchases items which it resells to individual franchisees. The term "depot" also applies to a group of purchasers who merely place and receive group orders. A minimum of five or six dealers, purchasing together, could be a "depot" and thereby entitled to the same depot prices as Ro-Fi which serviced almost one hundred Mister Softee dealers.

1. Mister Softee Mix

According to William J. Hortsmann, owner of the only dairy willing to produce the precise Mister Softee formula, the mix could not be sold in small quantities to individual franchisees or small cooperative groups because of the economics of producing the mix. Even if Mister Softee mix were available to cooperative purchasing groups, storage, distribution and compliance with health regulations would require substantial additional expenses. For example, Esposito stored paper items purchased for a group of dealers in his garage where he also maintained a "basic house" size refrigerator and sixteen cubic feet of freezer space. (Dam. Tr. 193-94). In contrast, CV, a depot established by Esposito in 1979, maintains a refrigerator

"about ten times the size" of the garage refrigerator and "thousands" of cubic feet of freezer space. (Id.) With respect to group purchases of mix, plaintiffs ask us to ignore the obviously necessary expenses for rent of the physical location, purchase, maintenance, insurance, etc. of equipment and employment of necessary staff. About one-half of Ro-Fi's gross sales to the plaintiff class involved Mister Softee mix. We find that Ro-Fi's cost for this significant tied item does not represent the cost for the mix to plaintiffs on the open market. We discuss below plaintiffs' failure to provide any credible evidence respecting lower prices for Mister Softee mix in either the group purchase market from a dairy or supplier or in the market where individual franchisees purchased

mix (at retail prices) from depots such as Ro-Fi.

2. Other Supplies

Sales at depot price are made in case lots, requiring the purchase of several cans of a particular topping, etc. or several "sleeves" of paper goods. These items are actually used in smaller quantities on a daily basis by individual dealers. According to John Panza, plaintiffs' expert, a depot or cooperative purchasing group must pay A. Panza & Sons, a distributor, within 10 days of delivery. Ro-Fi apparently purchased on such terms and then resold smaller quantities of such items to franchisees, with payment due in 30 days and with credit extended thereafter at interest. In contrast, a cooperative purchasing group would be required to pay for supplies

upon delivery or within 10 days and then store the excess goods. In August and September of 1974, Esposito ordered paper goods from E. Green and Company, Inc. ("Greene"), on behalf of several franchisees. Payment for the paper goods was required upon delivery. The goods were stored over the winter for use during the following season. Franchisees picked up the supplies as needed by going to Esposito's garage and then to their route locations. Thus, we conclude that the depot price charged to Ro-Fi does not reflect the credit, storage and other aspects of group purchases at depot prices.

3. Cooperative Purchasing by Plaintiff

Plaintiffs' proof of damages is based on a hypothetical cooperative

buying unit organized by dealers who would have the purchasing power to purchase supplies at Ro-Fi's cost. Except for sporadic attempts at organizing a cooperative unit by Esposito as described above, no effective purchasing unit was organized, although the dealers were released of any threat of termination by reason of such practice under this court's order of March 8, 1976. We conclude that attempts at cooperative purchasing were mainly for the purpose of negotiating better prices with defendants when the dealers were faced with announcements of increased costs for supplies. The supplies that were purchased, i.e., chocolate topping, paper products, etc. were generally of poorer quality than the supplies offered by Ro-FI and were purchased at less favorable

terms regarding credit, convenience and storage.

We reject as irrelevant the wholesale market price urged by plaintiffs as a measure of damages. Plaintiff has incorrectly defined the relevant market. See, e.g., Costello Publishing Co. v. Rotelle, O.S.A., 670 F.2d 1035, 1046 (D.C. Cir. 1981); Mullis v. Arco Petroleum Corp., 502 F.2d 290, 295-96 (7th Cir. 1974); White and White, Inc. v. American Hospital Supply, 540 F. Supp. 951, 980 (W.D. Mich. 1982); United States v. Chas. Pfizer & Co., 246 F. Supp. 464 (E.D.N.Y. 1965). 246 F. Supp. 464 (E.D.N.Y. 1965).

Members of the class purchasing supplies from the Ro-Fi depot had the right to purchase those supplies at the fair market value, i.e., prices would have been established free of the illegal tying agreements in a competitive

market. Plaintiffs do not argue that there is any difficulty in establishing the retail fair market value of supplies as determined by sales by other depots or suppliers selling to ice cream vendors. Indeed, plaintiffs' record at the liability trial includes allegations of individual surreptitious purchases at prices below Ro-Fi's price. Nonetheless, the record here is devoid of information respecting this market. Instead, plaintiffs attempt to establish a lower fair market value by selecting the depot or wholesale market in which they had not dealt and for which there is no rational basis. See American Sea Green Slate Co. v. O'Halloran, 229 F. 77, 80 (2d Cir. 1915).

III. The Record

Three witnesses were called by plaintiffs at the damage trial. John Panza, Vice President of A. Panza & Sons, a distributor, testified that if plaintiffs had started a cooperative buying group during the damage period such group would have been entitled to the same depot price as Ro-Fi. Panza did not testify as to actual prices at any level. John Esposito, a named plaintiff, testified to the group purchasing efforts described above and gave Ro-Fi's annual costs and gross sales for each year of the damage period, based upon his review of Ro-Fi's books and ledgers. Paul Gaynes, a certified public accountant, testified as to (1) the dollar amount of Ro'Fi's sales to the plaintiff class, (2) Ro-Fi's costs respecting the items

sold and (3) the difference for each year of the damage period as based upon his audit of Ro-Fi's books and records. Gaynes also testified that based upon certain royalty figures, it appeared that such records did not reflect all sales made by Ro-Fi.

No information was given as to prices charged by Ro-Fi's competitors. Esposito mentioned local depots such as Carousel and C & M. Panza named several other depots in the Metropolitan area, i.e., Caribe Vending (Bronx), Billy Boy (Brooklyn), Custard King, Mito Enterprises (Dam. Tr. 1.14). Thus, we find that this is not a case where defendants' wrongful acts have eliminated data that would otherwise support the computation of damage claims. Rather, plaintiffs

have chosen to avoid introducing any cost information other than Ro-Fi's costs.

Defendants, not plaintiffs, introduced Panza's price list and prices for two other suppliers. Defendants' Exhibit Y is a comparison of 1975 list (retail) prices (to individual dealers) charged by these suppliers with Ro-Fi's list prices for that year. This exhibit indicated that for several toppings and other edible items, Ro-Fi undersold the others. Generally, Ro-Fi was more expensive for paper goods. Defendants clearly established, at the damage trial, the inferior quality of the mix, toppings and almost all paper goods as sold by other suppliers at prices below Ro-Fi's price.

As noted above, plaintiffs' case is devoid of data respecting the relevant market. Following the liberal approach to proof of damages in anti-trust matters, we have considered the entire record here and included the record of the liability trial despite defendants' contention that plaintiffs should not rely upon defendants' case to prove its own. Nonetheless, we find that the record as a whole does not show that plaintiffs were overcharged for the items sold by Ro-Fi.

Panza's and Esposito's testimony regarding mix related to products that failed to follow the more rigorous requirements of the Mister Softee formula. Accordingly, we find that no proof has been presented that the Mister Softee mix sold by Ro-Fi could have been purchased elsewhere for less. Similarly,

we conclude that toppings sold by Ro-Fi were of better quality than the items sold by the comparison suppliers. With respect to paper goods, we note that of the supplies purchased from Greene, the cups were misprinted dixie clock cups and that generally Greene delivered whatever it had in stock. Testimony was also given as to the inferior quality of plastic spoons purchased from Greene (Dam. Tr. at 3.130-32). It appears that only straws might have been of comparable quality to those sold by Ro-Fi, but such conclusion is based upon defendants' failure to question such purchase rather than plaintiffs' proof that the item sold was comparable. We note that Greene sold on a C.O.D. basis while Ro-Fi required payment in 30 days with provision

for credit thereafter. Thus, we reject the price comparisons (including the price comparison for straws) as an adequate basis for any computation, assumption or inference regarding the amount of damages here on the grounds that the quality of items covered and the terms of sale are not comparable.

Alternate Theories

Following completion of the trial on damages, the court notified the parties that the wholesale price was not the appropriate measure of damages are invited supplemental briefs on the theory of damages. Plaintiffs' counsel submitted several statistical presentations based upon Defendants' Exhibit Y, the comparative retail price list. We find that these computations are flawed in that the comparison price list upon which they are based does not represent costs

for comparable items. Further, plaintiffs reduce overcharges to percentages and then compute the average percent of overcharge. See Plaintiffs' Supplemental Post Trial Memorandum of Law, Apendix I. This approach incorrectly assumes that each item was purchased in the same quantity and fails to consider the items where Ro-Fi charged less. Plaintiffs' weighted average, based upon Esposito's unchallenged purchasing history for 1975, is similarly flawed in that, again, the prices supporting such computations are not comparable. See Plaintiffs' Supplemental Post Trial Memorandum of Law, Appendix II. Thus, given the limited value of the data set forth at Exhibit Y, we find that plaintiffs' post-trial attempts to average,

weigh or adjust such figures (to reflect the consumer price index) are no more than the statistical manipulation of irrelevant data.

Plaintiffs suggest that estimated distribution costs be added to Ro-Fi's retail cost and that such adjusted cost then be subtracted from the price paid to Ro-Fi by plaintiffs. Application of this alternate measure of damages, however, does not indicate that Ro-Fi overcharged plaintiffs. The record clearly indicates that Ro-Fi's mark-up from wholesale prices (20% for mix, 25% to 27% for non-mix items (Dam. Tr. at 3.116)) is comparable to the mark-up applied by CV, Esposito's competing depot ("anywhere from 20 to 30 percent, depending on the item" (Dam. Tr. at 1.142)) to CV's

wholesale prices. Since plaintiffs' expert, Panza, testified that all depots receive a uniform wholesale price, we find such comparison of percentages, while not exact, to be a more useful approach than the highly speculative estimate of distribution costs suggested by plaintiffs. Accordingly, we find that plaintiffs have failed to show that Ro-Fi prices were excessive for the illegally tied items.

We conclude that the record does not provide relevant data from which the court can estimate or infer the extent of damage caused by defendants' illegal tying arrangement.[12] The lack of any information respecting the damage period is not due to Ro-Fi's activities to eliminate competitors, but is clearly

due to plaintiffs' failure to even seek such material. Plaintiffs urge this court to impose damages based upon entirely speculative assumptions, drawn from irrelevant data. No case relied upon by plaintiffs for application for the "relaxed" proof of damage rule requires that we go this far.[13]

This record is devoid of comparative price lists for the years 1971 through and including 1974 despite the existence of alternate suppliers and surrepititious purchases by franchisees from such suppliers. Further, although information respecting actual individual or group sales made after the tying arrangement was rescinded (1976) is entirely within the knowledge of the plaintiff class, no such information was introduced at trial. This record is inexcusably

silent only because plaintiffs failed to produce any evidence of alternative prices. The comparative price information before us was provided by defendants to indicate that Ro-Fi prices were lower on certain basic supplies and that higher prices charged by Ro-Fi could be explained by differences in the quality and terms of sale for mix and goods sold by others. We find defendants' testimony persuasive.

Our conclusion is also supported by the testimony of one Bernie Marx at the liability trial. Marx, a generator mechanic, performed maintenance and repair work on Mister Softee trucks. In 1978, Marx briefly operated a small depot in competition with Ro-Fi, selling mix (Elmhurst) and supplies to Mister Softee dealers. He testified that Ro-Fi's

prices were "in most cases . . .lower" than prices charged by himself or others. (Liab. Tr. at 457). Plaintiffs' failure to call Marx or others to testify as to retail prices during the damage period is perhaps explained by the substance of Marx's testimony referred to here.

Additionally, we note that the fact that of the 100 Mister Softee dealers tied to Ro-Fi in 1976 when the tying requirement was rescinded, more than 80 franchisees have remained with Ro-Fi. CV Vendors, begun in 1979 and actively seeking the Mister Softee market has attracted only eight Mister Softee Dealers. (Dam. Tr. at 1.199).

IV. Royalties

The reimbursement claim for royalties paid by plaintiffs as computed on the

gallonage of soft ice mix purchased either from Ro-Fi or directly from the Horstmann dairy is based on Carpa, Inc. v. Ward Foods, Inc., 536 F.2d 39 (5th Cir. 1976), where the court stated:

> It is true that the trademark was not illegal; the collection of a royalty is not illegal; the supplies were the tied item. Nevertheless, the trademark was the linchpin of the whole arrangement. It was the factor upon which the entire illegal arrangement depended. We therefore see no error in denying the collection of royalties on its illegal use.
>
> It is suggested that if the agreement to pay a 1% royalty on all sales was illegal the trademark owners are entitled to collect the reasonable value of the use of the trademark. Since equity aids only those who come into court with clean hands, we do not consider ourselves free to adopt this suggestion.

536 F.2d at 50. In Carpa, the anti-trust violator was denied the right to recover

royalties due and unpaid on the reasonable value of the use of the trademark on the ground that he came into court with "unclean hands."

We decline to follow Carpa here. Damages in an anti-trust action are compensatory in nature, not punitive. Albrecht v. The Herald Co., 452 F.2d 124, 127-28 (8th Cir. 1971). The injury compensated must result from the type of harm the anti-trust laws were intended to prevent. Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc., 429 U.S. 477, 489, 97 S. Ct. 690, 697 (1977); Montreal Trading, Ltd. v. Amax, 661 F.2d 864, 887 (10th Cir. 1981). Royalties paid under an illegal tie-in arrangement are not recoverable as an item of damage. Further, the amount of damage imposed must bear some relationship to the harm

inflicted by defendants. See generally, Brunswick, supra. While the fact of defendants' illegal tying arrangement is beyond dispute, we decline to award damages in the amount of royalties paid. Automatic damages cannot be justified here merely because plaintiffs have failed to provide any other relevant basis from which we can fairly infer the amount of harm caused by defendants.[14]

V. Fact of Injury-Extent of Injury

The issues dicussed in the memorandum of decision of December 13, 1979 related solely to liability. The court, however, found that Section 1 of the Sherman Act violation caused injury. Defendants then raised the question of

causation in their post-trial brief. Plaintiffs objected to the effort of the defendants "to broaden the scope of this trial and relitigate a wide spectreum of issues, including, inter alia, fact of damage. (Pltff. post-trial brief, p. 17, n. 13). The short answer to plaintiffs' attempt to preclude reconsideration of the issue of the fact of damage is that "[P]roof of the fact of damage is closely intertwined with proof of causation." Knutson v. Daily Review, Inc., 548 F.2d 795, 811 (9th Cir.), cert. denied, 433 U.S. 910, 97 S. Ct. 1977).

Our finding of injury following the liability trial was based upon testimony

respecting purchases made at prices below Ro-Fi's prices.[15] Upon closer examination, we find that such testimony concerned inferior products or was not credible.[16]

In United States v. LoRusso, Nos. 82-1082, 82-1096, slip op. at 547, 559 (2d Cir. Dec. 2, 1982), the Court of Appeals for the Second Circuit stated that "a district court has inherent power to reconsider and modify its interlocutory orders prior to the entry of judgment." Accordingly, we vacate our prior conclusion "that the violation proximately caused injury to the members of the plaintiff class." (Memorandum of Decision, December 13, 1979, p.31)[17]

CONCLUSION

The Court afforded the parties an opportunity to submit briefs in reconsideration of the causation and damage issues. The court finds on the entire record, including such supplemental briefs, that plaintiffs have failed to establish the fact of damage by a fair preponderance of the credible testimony.[18]

The Clerk of the Court is directed to enter judgment in favor of defendants and against plaintiffs dismissing the complaint.

This memorandum of decision and the memorandum of decision of December 13, 1979 (as modified by this decision) contain findings of fact and conclusions of law required under Rule 52(a), Fed.R.Civ.P.

SO ORDERED.

_____

U.S.D.J.

FOOTNOTES

1. Section 1 of the Sherman Act, 15 U.S.C. § 1, states in pertinent part:

> Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared illegal.

2. The court, by order dated June 3, 1979, certified the plaintiff class as "all present franchisees in contractual relationships with defendant Mister Softee Eastern New York Div., Inc., and any individual, partnership or corporation who at any time heretofore had been in contractual relationship under a franchise agreement with Mister Softee Eastern New York Div., Inc."

3. The court found that "there was substantial proof that the merchandise could have been purchased on the open market at prices lower than that charged by Ro-Fi." (Decision dated 12/13/79, f.n.21).

4. The relevant damage period begins April 15, 1971, four years prior to the filing of the complaint (15 U.S.C. § 15(b)) and ends on June 29, 1979, the date of the commencement of trial on the liability issue.

5. According to Ro-Fi's books and records, the amount of damages based upon this measure is $605,734. The higher figure of $1,006,016 claimed by plaintiffs is based upon certain assumptions as to Ro-Fi's markup over costs and includes sales credited to Ro-Fi that were not recorded as sales on its ledgers.

6. Esposito named 22 dealers who had on occasion purchased some supplies from non-designated sources prior to 1975. (Liab. Tr. June 29, 1979, p.123).

7. Though dealers had been advised of the doubtful validity of the tying agreements, they were reluctant to risk termination of the franchise.

8. Esposito testified that about 30 dealers comprised the group. Only toppings and cups and plastics, napkins and milk were puchased. The items were delivered to Esposito's home and picked up by the dealers there. (Liab. Tr. June 29, 1979, p. 187). On November 8, 1982, Esposito testified that he and DeLape bought paper products and toppings. (Dam. Tr. p.1.111). Other dealers bought some items occasionally. The merchandise was stored in Esposito's home, DeLape's garage and West Pierre's garage. (Dam. Tr. 1.92 to 1.93).

9. A. Panza and Sons supplies CV with a soft ice cream mix made by Abbott Dairies based on Panza's formula--not

the Mister Softee formula and containing inferior ingredients. The corn syrup in the mix had "A slight off flavor to it." (Tr. 1.34 to 1.38). See Susser v. Carvel Corp., 332 F.2d 505, 520 (2d Cir. 1964) and the discussion concerning the legitimate interest of the trademark owner in ensuring product quality and protecting the goodwill attached to the Mister Softee Trademark. Decision of December 13, 1979 pp.25-26.

10. The Court in J. Truett Payne Co. v. Chrysler Motors Corp., supra, rejected the theory of automatic damages in a claim based on a violation of the Clayton Act § 2(a), as amended by the Robinson-Patman Price Discrimination Act, 15 U.S.C. § 13(a).

11. In Bigelow, plaintiffs charged a Sherman Act conspiracy which prevented them from securing pictures for exhibition in their theatres until after preferred exhibitors were able to show their earlier and more desirable runs. Plaintiffs claimed loss of profits based on what they would have made had they not been adversely affected by the discriminatory system of film distributors. Defendants claimed that it was not possible to say what the conditions might have been had there been no conspiracy.

12. Plaintiffs' brief suggests that we apply the so-called "yardstick" or "measuring rod" test. That test may be appropriate where the plaintiff finds it difficult to prove lost profit damages where he has been driven out of business or excluded from the market. The yardstick test "consists of a study of the profits of business operations that are closely comparable to plaintiff's." Lehrman v. Gulf Oil Corp., 500 F.2d 659, 667 (5th Cir. 1974). No such study or information was presented by plaintiffs herein respecting purchases by other soft ice cream dealers or sales by other depots.

13. See e.g., Malcolm v. Marathon Oil Co., 642 F.2d 845 (5th Cir.), cert. denied ____ U.S. ____, 102 S. Ct. 975 (1981) (directed verdict for defendants reversed where appellate court found that evidence of actual past profits constituted "comparable" evidence regarding future profits); Smith v. Pro Football, Inc., 593 F.2d 1173, 1189-91 (D.C. Cir. 1978), rehearing denied (1979), (trial court's computation of damage based upon hypothetical salary upheld where wrongdoer was responsible for the uncertainty as to salary, but case remanded where "trial judge's hypothesis of a fully guaranteed, three-year contract can be characterized only as a 'speculative guess.' There was no evidence on which this hypothesis could be founded, no evidence from which it could be inferred.")

Hobart Bros. Co. v. Malcolm T. Grilliland, Inc., 471 F.2d 894, 902 (5th Cir.), cert. denied, 412 U.S. 923, 93 S. Ct. 2736 (1973) (assumption respecting future profits, as made by plaintiffs' expert witness, an economist, held to be permissible solely on the grounds that defendant was responsible for the lack of evidence); Herman Schwabe, Inc. v. United Shoe Machinery Corp., 297 F.2d 906, 909-14 (2d Cir.), cert. denied, 369 U.S. 865, 82 S. Ct. 1031 (1962) (dismissal of complaint by district court affirmed where plaintiff failed to offer evidence permitting a rational determination of damages).

14. See note 10, supra.

15. Esposito testified at the liability trial that he had purchased various supplies on the free market at a lower price than that charged by Ro-Fi, e.g. pineapple bought at the A & P for $2; Ro-Fi charged $4. (Liab. Tr. p.162). Customers were satisfied with the quality of the pineapple and the chocolate syrup. (Liab. Tr. p.196-97). Soft ice cream mix was available from the Stoney Lane Dairy at a "lower price and a better quality." (Liab. Tr. p. 181-82). Purchased toppings, cups and plastic from Greene & Liberty Products. (Liab. Tr. 187-88). Testimony of Gaspare Asaro: purchased mix and supplies at a price lower than that charged by Ro-Fi. (Liab. Tr. p.594-97). Plaintiff pruchased inferior items, not comparable to Ro-Fi's

supplies, as established at the damage trial.

16. We reject plaintiffs' unsupported statement that some unknown distributor was allegedly 10 to 12 percent cheaper than Ro-Fi (Plaintiffs' Supplemental Post-Trial Brief at pp.5-6). Further, we find Esposito's testimony not credible.

17. See Areeda, Antitrust Violations Without Damage Recoveries, 89 Harv. L. Rev. 1127 (1976). [W]hile the courts may tolerate uncertainty as to the quantum of damages, it is customarily said that they will not tolerate "speculation or guesswork," and, perhaps more fundamentally will insist upon a greater degree of proof of the fact of injury than would suffice for proof of the quantum of damage. Unfortunately, this difference in proof requirements may lead to confusion in the actual determination of damages, and to a failure to recognize the existence of three superficially paradoxical possibilities: that there can be (1) an antitrust violation that does not cause an injury, (2) an injury that does not warrant a damage award, and (3) a damage assessment that produces no net recovery. Careful attention to the relationship between damage awards and the rationales for finding

substantive liability will dissolve the appearance of paradox, and provide guidance for courts faced with the problem of determining proper damage judgments.
Id. at 1127-28.

18. The court concludes that if the fact of damage were found, nonetheless, the plaintiffs failed to establish the extent of damage under the principle of a relaxed standard of proof on the latter issue.

DECISION OF THE COURT OF APPEALS
FOR THE SECOND CIRCUIT
DATED September 16, 1983

At a stated Term of the United States Court of the Appeals for the Second Circuit, held at the United States Courthouse in the City of New York, on the 16th day of September, one thousand nine hundred and eighty-three.

Present:

HONORABLE IRVING R. KAUFMAN
HONORABLE THOMAS J. MESKILL
HONORABLE LAWRENCE W. PIERCE

Circuit Judges,

----------x

VINCENT ESPOSITO, WEST PIERRE, MIKE DeLAPE, LEE SPENCER, ERNEST HODGES, DANIEL A. SMITHY, MIKE MINITELLO and AL SPENCER, INDIVIDUALLY AND AS OFFICERS OF THE FIVE COUNTRY SOFT ICE CREAM DEALERS ASSOCIATION, ON BEHALF OF ALL MISTER SOFTEE FRANCHISEE-DEALERS LOCATED IN THE QUEENS-NASSAU AREA,

Plaintiffs-
Appellants,

-against-

MISTER SOFTEE, INC. and
MISTER SOFTEE EASTERN
NEW YORK DIV., INC.,
RO-FI CORP. and FI-ZO
CORP. and C & C DISTRI-
BUTORS, INC., 83-7380

Defendants-Appellees

----------x

Appeal from the United States District Court for the Eastern District of New York.

This cause came on to be heard on the transcript of record from the United States District Court for the Eastern District of New York, and was argued by counsel.

ON CONSIDERATION WHEREOF, it is now hereby ordered, adjudged, and decreed that the order of said District Court be and it hereby is affirmed.

1. Judge Mishler acted within his discretion in rejecting appellants' theory of damages for violations of Section 1 of the Sherman Act, 15 U.S.C. Section 1. The wholesale price comparison appellants sought to make was highly speculative and they did not demonstrate any more than a theoretical possibility of organizing a dealer cooperative with the

ability to do business directly with manufacturers or wholesale suppliers. Nor does appellants' theory take into account other services provided for them by appellee Ro-Fi, services which would have entailed some costs regardless of how they were obtained. Fair market value may not be established by reference to the price in a market in which the dealers had not operated, and had not demonstrated the capability of dealing in any systematic manner. See Costello Publishing Co. v. Rotelle, O.S.A., 670 F.2d 1035, 1046 (D.C. Cir. 1981).

2. Appellants did not make a sufficient showing of damages to sustain a Section 1 violation. To make out a claim for damages under the antitrust laws, a private plaintiff must show both violation and incurred injury. J. Truett Payne Co. v. Chrysler Motors Corp., 451 U.S. 557, 562 (1981). Appellants failed to establish the quantum of damages flowing from the unlawful tying arrangement. The evidence did not support the argument that Ro-Fi overcharged dealers for the goods it provided; in cases where Ro-Fi's prices were higher than

those of other retailers, the district court found that the difference was attributable to variation in quality.

3. Where quantum of damages cannot be shown, this Court requires concrete evidence of fact that damages were incurred to support a determination of Sherman Act liability. See, e.g., Interstate Cigar Co. v. Sterling Drug Inc., 655 F.2d 29, 31 (2d Cir. 1981); Int'l Railways of Central America v. United Brands, 532 F.2d 231 (2d Cir. 1976), cert. denied, 429 U.S. 835 (1977). Such evidence was not adduced here. Nominal damages do not flow automatically from proof of a Section 1 violation. See J. Truett Payne Co. v. Chrysler Motors Corp., supra, at 451 U.S. 561-62; Herman Schwabe, Inc. v. United Shoe Machinery Corp., 297 F.2d 906, 909 n.4 (2d Cir. 1962). Without proof of quantum of damages or of fact that damages were incurred in the record, the district court properly vacated its interlocutory finding of liability under Section 4 of the Clayton Act, 15 U.S.C. Section 15.

4. Appellants are not entitled to reimbursement for royalties paid under their franchise agreements. Damages in an antitrust action are intended to be compensatory, not punitive, and the statute prescribes the remedy for violation. Lewis v. Seanor Coal Co., 382 F.2d 437, 441 (3d Cir. 1967), cert. denied, 390 U.S. 947 (1968). There is no evidence that royalties paid by appellants represented overcharges; if they had, that would properly be part of the damage award were one to be made.

5. Appellants' other contentions are equally without merit.

6. The judgement of the district court dismissing the complaint is affirmed.

IRVING R. KAUFMAN

THOMAS J. MESKILL

LAWRENCE W. PIERCE,

Circuit Judges.

FILED
JAN 9 1984
ALEXANDER L. STEVAS,
CLERK

No 83-1018

IN THE

Supreme Court of the United States

OCTOBER TERM, 1983

VINCENT ESPOSITO, WEST PIERRE, MIKE DeLAPE, LEE SPENCER, ERNEST HODGES, DANIEL A. SMITHY, MIKE MINITELLO, and AL SPENCER, On Behalf of All Present and Former Mister Softee Franchises in the Queens-Nassau Area,

Petitioners,

— v. —

MISTER SOFTEE, INC., MISTER SOFTEE EASTERN NEW YORK DIV., INC., RO-FI CORP. and C & C DISTRIBUTORS, INC.,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

RESPONDENTS' BRIEF IN OPPOSITION

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IN THE

Supreme Court of the United States

October Term, 1983

VINCENT ESPOSITO, WEST PIERRE, MIKE DELAPE, LEE SPENCER, ERNEST HODGES, DANIEL A. SMITHY, MIKE MINITELLO, and AL SPENCER, On Behalf Of All Present And Former Mister Softee Franchisees In The Queens-Nassau Area,

Petitioners,

v.

MISTER SOFTEE, INC., MISTER SOFTEE EASTERN NEW YORK DIV., INC., RO-FI CORP. and C & C DISTRIBUTORS, INC.,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

RESPONDENTS' BRIEF IN OPPOSITION

The respondents Mister Softee, Inc., Mister Softee Eastern New York Div., Inc., Ro-Fi Corp. and C & C Distributors, Inc. respectfully request that this Court deny the Petition for a writ of certiorari, seeking a review of the Second Circuit's opinion in this case. That opinion is contained in the Appendix to the petition (109a-113a).

REASONS WHY THE WRIT SHOULD BE DENIED

1. *The Nominal Damages Issue*

Petitioners urge that the refusal of the District Court and the Second Circuit to award nominal damages in this case is in direct conflict with decisions of the Eighth and Ninth Circuits

and, further, presents important issues which should be reviewed by this Court. In fact, however, even assuming the issue of nominal damages in Section 4 cases to be of substantial importance, there is no direct conflict among the Courts of Appeals. Moreover, as a more detached review of the Second Circuit's decision will demonstrate, the issues framed by petitioners as Questions Presented "1" and "2" are not squarely posed by the record.

Thus, petitioners characterize the issue as whether nominal damages should be awarded under Section 4 of the Clayton Act "where the proof is insufficient as to the *measurement* of damage" (Petition at p. 8) (*Emphasis supplied.*) The clear implication is that petitioners did prove that they were overcharged for supplies by respondents, but were unable adequately to establish *the extent* of the overcharge. However, such a characterization cannot be extracted from the opinions below. Rather, the courts below held that petitioners completely failed to show that they were overcharged for their supplies *at all*.

Indeed, petitioners mislead this Court by referring to the District Court's initial 1979 opinion on liability that "the tied merchandise was overpriced" (Petition at p. 6), without pointing out that, after the second trial three years later on damages (after extensive discovery was held), the District Court changed its initial conclusion and held as follows:

> "Our finding of injury following the liability trial was based upon testimony respecting purchases made at prices below Ro-Fi's prices. Upon closer examination, we find that such testimony concerned inferior products or was not credible" (99a-100a).

While expressly following the "liberal approach" on proof of damages, the District Court found that "the record as a whole does not show that plaintiffs were overcharged for the items sold by Ro-Fi" (87a). For example, with respect to the group purchases referred to in the Petition (at p. 6), the District Court found that the supplies purchased "were generally of a poorer quality than the supplies offered by Ro-Fi and were purchased at less favorable terms regarding credit, convenience and stor-

age" (81a-82a). Indeed, the District Court found that *respondents*—even though they did not have the burden of proving the lack of overcharging—"clearly established, at the damage trial, the inferior quality of the mix, toppings and almost all paper goods as sold by other suppliers at prices below Ro-Fi's price" (86a).

The Second Circuit agreed with the District Court that petitioners did not adduce evidence of *any* overcharge for their supplies; there was not just a failure to establish *the quantum* of overcharge (111a-112a). Under the circumstances, the Second Circuit ruled that nominal damages should not be awarded and that the District Court's vacatur of its interlocutory finding of liability was proper.

Contrary to petitioners' claim, such ruling does not conflict with that of any other Circuit Court. The cases cited in the Petition (at p. 8) are inapposite. Thus, in *Rosebrough Monument Co. v. Memorial Park Cemetery Ass'n*, 666 F.2d 1130 (8th Cir. 1981), *cert. denied*, 457 U.S. 111 (1982), plaintiff manufactured and installed burial monuments. Defendant cemetery owners had agreed among themselves that the preparation of the foundation for grave monuments could be done only by the cemetery owning the lot. Plaintiff claimed that such agreement constituted an illegal tying arrangement and that it was thereby damaged by its exclusion from the foundation preparation market.

The District Court found after trial that plaintiff had failed to prove either fact of damage or amount of damages. The Eighth Circuit concluded that the District Court's finding of no fact of damage was clearly erroneous and reversed on that issue; but the Circuit Court further concluded that the District Court's finding that plaintiff had failed to prove amount of damages was not clearly erroneous, so it affirmed the denial of compensatory damages. The Eighth Circuit nevertheless awarded nominal damages, reasoning as follows:

> "An award of damages may not be based upon mere speculation. However, appellant's evidence was insufficient only as to measurement of damages." (*Id.* at p. 1146.)

There is nothing in the Eighth Circuit's opinion to suggest that nominal damages should be awarded in Section 4 cases where, as here, plaintiffs have failed to prove even *fact* of damage. Indeed, the above-quoted language suggests the contrary.

Petitioners' reliance upon *Knutson v. Daily Review Inc.*, 664 F.2d 1120 (9th Cir. 1981) is misplaced for the same reason. The District Court, applying the law of the case from a prior appeal, found that plaintiffs had shown fact of damage. *Knutson v. Daily Review, Inc.*, 468 F. Supp. 226, 232 (N.D. Cal. 1979). However, the District Court found that plaintiffs had failed to prove the amount of their damages. Nevertheless, expressly relying upon the "fact of injury" determination, the District Court ruled that nominal damages should be awarded. (*Id.* at p. 235, fn 10.)

The Ninth Circuit's affirmance of the District Court's award of nominal damages in *Knutson* should not be interpreted to mean that proof of fact of damage is unnecessary. Again, the opinions of the District Court and Circuit Court indicate that the finding of fact of injury was a prerequisite to the nominal damages award.

The last case cited by petitioners to show the purported division of the Courts of Appeals, *Fleer Corp. v. Topps Chewing Gum, Inc.*, 501 F. Supp. 485 (E.D. Pa. 1980), *rev'd on other grounds*, 658 F.2d 139 (3rd Cir. 1981), *cert. denied*, 455 U.S. 1019 (1982), lends even less support to petitioners' contention. As the District Court therein held:

> "In a small number of well-reasoned decisions, courts have awarded nominal damages under § 4 of the Clayton Act where injury-in-fact was shown, but the amount of injury was not capable of calculation" (501 F. Supp. at p. 514).

The Third Circuit ruled that there had been no antitrust violation, so it did not reach the damages issues. Again, there is no conflict with the subject decision of the Second Circuit.

Significantly, petitioners appear to be the only ones who have noticed a "conflict" among the Circuit Courts on the issue of

nominal damages in Section 4 cases. No cited case or commentator refers to any such conflict. Plainly, no such conflict exists.

Moreover, the question of whether nominal damages should be awarded in a Section 4 case where no fact of damage is proved does not appear to be of such great importance to the American public that it should be definitively resolved by this Court even absent a conflict among the Courts of Appeals. *Carey v. Piphus*, 435 U.S. 247 (1978), cited in the Petition (at p. 9), does not mandate such a conclusion. In upholding nominal damages without proof of actual injury to plaintiffs who have been deprived of procedural due process, this Court emphasized the "absolute" nature of the right to due process and "the importance to organized society that procedural due process be observed" (*Id.* at p. 266). In stark contrast, this Court has held that Section 4 of the Clayton Act is essentially "a remedial statute" which authorizes an award of damages only to a person "who shall be injured in his business or property. . . ." *J. Truett Payne Co. v. Chrysler Motors Corp.*, 451 U.S. 557, 562 (1981).

Finally, respondents respectfully submit that petitioners are not suitable parties to litigate in this Court questions concerning damages awardable in Section 4 cases where proof of actual injury is too difficult to establish adequately. Unlike market exclusion cases such as *Rosebrough*, involving claims of lost profit opportunity which are inherently difficult to quantify, petitioners quite easily could have established the amount by which respondents' prices were higher than free-market prices for comparable supplies—if in fact this had been the case. Indeed, *respondents* offered price-comparison data after petitioners failed to do so, which showed that outside prices were lower only for lesser-quality merchandise (93a-94a). Petitioners suggest that their failure to prove any overcharge was due to the nature of antitrust cases or respondents' misconduct, rather than their own default; but such contention is plainly false. As the District Court found:

> "[T]his is not a case where defendants' wrongful acts have eliminated data that would otherwise support the computation of damage claims. Rather, plaintiffs

> have chosen to avoid introducing any cost information other than Ro-Fi's costs" (85a-86a).

In sum, petitioners were found: (a) to have given false testimony on market prices at the liability trial (99a-100a); and (b) to have failed purposely to offer any proof of outside market prices at the damages trial (85a-86a). Petitioners' failure to offer such proof was due neither to respondents' wrongful actions nor to any inherent difficulty in the gathering or presentation of evidence. Rather, as set forth in the decisions below, the actual reason was that petitioners' claims of overcharge were specious. Under the circumstances, respondents respectfully submit that petitioners are not the appropriate parties to argue the nominal damages questions before this Court.

2. *The Refusal To Direct Reimbursement Of Franchise Royalties*

The Second Circuit affirmed the District Court's ruling that petitioners were not entitled to reimbursement of royalties paid to respondents under their franchise agreements. Citing *Lewis v. Seanor Coal Co.*, 382 F.2d 437, 441 (3rd Cir. 1967), *cert. denied*, 390 U.S. 947 (1968), the Second Circuit reasoned:

> "Damages in an antitrust action are intended to be compensatory, not punitive, and the statute prescribes the remedy for violation" (113a).

Once again, petitioners contend that the Second Circuit's aforesaid decision is in conflict with decisions in other circuits, *viz.*, *Carpa, Inc. v. Ward Foods, Inc.*, 536 F.2d 39 (5th Cir. 1976) and *Milsen Co. v. Southland Corp.*, 454 F.2d 363 (7th Cir. 1971). Again, however, a more careful analysis reveals the lack of any direct conflict.

Thus, *Carpa* involved an *affirmative* claim by a franchisor found to have committed antitrust violations to recover unpaid royalties, which the District Court denied by application of the equitable doctrine of "unclean hands"; this is clearly distinguishable from the case presented to the Second Circuit, where the *franchisees* sought the affirmative relief. Further, the Fifth Cir-

cuit simply found that the District Court had committed "no error" in its application of the unclean hands doctrine; again, this is distinguishable from the case at bar where petitioners were asking the Court of Appeals to overturn the District Court's application of its powers as a court of equity.

The *Milsen* case similarly does not merit the reliance placed upon it by petitioners. Thus, the issue presented was whether the District Court had erroneously refused to issue a preliminary injunction against the termination of franchises for failure to pay franchise fees, where the franchisor was found to have violated the antitrust laws. While the Seventh Circuit ruled that the preliminary injunction should have been issued, the court declined to direct the return of franchise fees. Indeed, in referring the issue of franchise fees to the District Court, the Court of Appeals stated:

> "Our opinion does not compel a holding that plaintiffs owe no franchise or other fees to defendants." (*Id.* at p. 369.)

Accordingly, respondents respectfully submit that the Second Circuit did not create a conflict among the Courts of Appeals in rejecting petitioners' claim that previously paid royalties were a recoverable item of damage. Quite clearly, the Second Circuit did not "ignore" *Carpa* and *Milsen;* it merely—and properly—concluded that those cases were inapposite.

Moreover, the refusal of the Second Circuit to direct the refund of royalties paid under petitioners' franchise agreements does not raise issues of such import that a review thereof by this Court is needed. In fact, the Second Circuit was following this Court's imprimatur that "the federal courts should not be quick to create a policy of nonenforcement of contracts beyond that which is clearly the requirement of the Sherman Act." *Kelly v. Kosuga,* 358 U.S. 516, 519 (1959). *Accord: Bruce's Juices, Inc. v. American Can Co.,* 330 U.S. 743, 754 (1947) (Warning against adoption of a "deadly remedy" of ending illegal business actions "by ending the business"). The Second Circuit noted that there was no evidence that these royalties represented overcharges to petitioners, but that "if they had, that would properly be part of

the damage award were one to be made" (113a). The Second Circuit's patent recognition and following of policies enunciated by this Court in the above-cited cases provides little reason for further review by this Court.

3. *The "Support Services" Issue*

Petitioners contended in the District Court and the Second Circuit that their damages for the alleged overcharge should be measured by the difference between the prices charged by the Ro-Fi depot for supplies and the underlying cost of those supplies to respondent Ro-Fi Corp. (65a-66a). Petitioners based this theory "on the assumption that, in a free market, the dealers would have organized a cooperative buying group with the purchasing power to buy merchandise at prices comparable to those available to Ro-Fi" (66a). Petitioners' selection of this theory of damages was prompted by the fact, discussed above, that the actual prices charged by respondent Ro-Fi Corp. to petitioners were no greater (and often less) than the prices for comparable items charged by available alternative suppliers (86a). Since the facts precluded petitioners from providing an overcharge *via* the most obvious means of a comparative market study, petitioners concocted the novel theory that the Ro-Fi supply depot's cost of goods sold *ipso facto* constituted fair-market prices; and that therefore Ro-Fi's *gross* profit established the alleged overcharge.

Both the District Court and the Second Circuit rejected petitioners' theory of damages essentially on two separate and independent grounds. First, petitioners had not established that it would have been reasonably possible for such an effective dealer cooperative to be organized. Indeed, the District Court concluded upon ample evidence in the record that petitioners had erroneously chosen the wholesale depot market "in which they had not dealt and for which there is no rational basis" (83a). In its affirmance, the Second Circuit found that petitioners "did not demonstrate any more than a theoretical possibility of organizing a dealer cooperative with the ability to do business directly with manufacturers or wholesale suppliers" (110a-111a).

The second reason for the lower courts' rejection of petitioners' damage theory was that, as the Court of Appeals put it, it failed to "take into account other services provided for them by appellee Ro-Fi, services which would have entailed some costs regardless of how they were obtained" (111a). As amplified by the District Court," . . . plaintiffs ask us to ignore the obviously necessary expenses for rent of the physical location, purchase, maintenance, insurance, etc. of equipment and employment of necessary staff" (78a). Thus, the courts below reasoned, even if petitioners had proven that a dealer cooperative could have effectively matched Ro-Fi's purchase prices for supplies, the substantial costs of operating such a dealer cooperative would have to be allocated among the members—just as Ro-Fi had to pass on such costs to its customers.

Petitioners contend herein that the Court of Appeals erroneously placed upon them "the burden of showing the nature and extent of costs incidental to the purchase of goods on the open market, had the violation not occurred. . . ." (Petition at p. 14). Petitioners further contend that such determination squarely conflicts with decisions of other Courts of Appeals. Again, however, petitioners' argument is specious.

Initially, the "support services" issue posited by petitioners is not squarely presented by the record. As set forth above, the opinions below also rejected petitioners' theory of damages for the separate and independent reason that petitioners had failed to establish that they could have purchased supplies from manufacturers at the same reduced depot prices paid by Ro-Fi Corp. There is no need to reach the "support services" question if the basic cost question was determined adversely to petitioners.

Moreover, contrary to petitioners' argument, saving dealers the costs inherent in a dealer cooperative is not properly characterized as a "beneficial byproduct" resulting from the claimed violation. As the courts below properly recognized, the issue before them was whether members of plaintiff class suffered proximate injury by reason of the alleged violation, *i.e.*, whether a franchisee could have saved money by buying comparable supplies outside the Ro-Fi depot. Respondents offered proof at

the damages trial, to the lower courts' satisfaction, that any franchisee who joined a hypothetical purchasing cooperative would be required to share in the necessary costs and expenses incident thereto. This added cost to the individual dealer would not be a "byproduct" of his purchase, but rather a definite addition to his cost of purchase.

Finally, regardless of which side had the burden of proving the numerous expenses incidental to operation of a supply depot, the fact is that *respondents* assumed this burden themselves at the damages trial anyway, offering detailed proof of costs such as utilities, rent, salaries, maintenance of freezers and refrigerators, credit, etc. which any supply depot—cooperative or otherwise—must necessarily incur. Accordingly, the question of which side had the burden of persuasion on the issue is essentially moot.

Under the circumstances, review by this Court of this issue would be unnecessary and inappropriate.

CONCLUSION

The Petition for a writ of certiorari to the United States Court of Appeals for the Second Circuit should be denied.

Respectfully submitted,

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